



U.S. ENVIRONMENTAL PROTECTION AGENCY

*Fiscal Year*  
**2010**



AGENCY FINANCIAL REPORT

## ABOUT THIS REPORT

In previous years, the Environmental Protection Agency (EPA) produced a consolidated *Performance and Accountability Report (PAR)* to describe to the President, Congress, and the public the Agency's environmental program and financial performance over the course of a fiscal year. For Fiscal Year (FY) 2010, the EPA has elected to pilot the Office of Management and Budget's (OMB's) three-part reporting approach as an alternative to the consolidated PAR. For FY 2010, EPA is producing an *Agency Financial Report (AFR)*, an *Annual Performance Report (APR)* and an *FY 2010 Performance and Accountability Highlights*, pursuant to the OMB Circular A-136, *Financial Reporting Requirements*.

EPA's AFR provides fiscal and high-level performance results that enable the President, Congress, and the public to assess our accomplishments for each fiscal year (i.e., October 1 through September 30). It will also include EPA's *FY 2010 Management Assurance Statement* and *FY 2010 Financial Statements Audit Report*, which provide the Administrator's assurance statement on the soundness of the Agency's internal controls for financial and programmatic activities and present progress in addressing Office of Inspector General audit recommendations, respectively.

EPA's APR provides information on the Agency's performance and progress in achieving the goals in its Strategic Plan and performance budget. The report is prepared in accordance with the requirements of OMB Circular A-11. EPA will produce the FY 2010 APR in conjunction with the FY 2012 Congressional Budget Justification and will post it on the Agency's website at <http://epa.gov/ocfo/budget/index.htm> by February 7, 2011.

In addition, EPA will distribute the *Performance and Accountability Highlights*, a report designed to distill key financial and performance information from both the AFR and APR in a brief, user-friendly format that is easily understood by a reader with little technical background in these areas. The *Highlights* will be posted on the Agency's website at [www.epa.gov/ocfo/financialperformancereports.htm](http://www.epa.gov/ocfo/financialperformancereports.htm) by February 15, 2011.

## How the Report Is Organized

### Administrator's Letter

The Administrator's letter transmits EPA's *FY 2010 AFR* from the Agency to the President and Congress. In the letter, the Administrator describes the Agency's missions, goals, and accomplishments toward upholding the mission. The letter provides assurance that financial and performance data presented in the AFR is reliable and complete and conveys material internal control weaknesses and actions EPA is taking to resolve them.

### Section I—Management's Discussion and Analysis (MD&A)

This section contains information on EPA's mission and organizational structure; selected Agency performance results; an analysis of the financial statements and stewardship figures; information on systems, legal compliance, and controls; and other management information and initiatives.

## **Section II—Financial Section**

This section contains the Message from the Chief Financial Officer (CFO), Agency's financial statements and related Independent Auditor's Report, as well as other information on the Agency's financial management.

## **Section III—Other Accompanying Information**

This section provides additional material as specified under *OMB Circular A-136, "Financial Reporting Requirements."* The subsection titled "Management Challenges and Integrity Weaknesses" discusses EPA's progress in strengthening management practices to achieve program results and presents the Inspector General's list of top management challenges and the Agency's response.

## **Appendices**

The appendices include a list of relevant EPA Internet links and a glossary of acronyms and abbreviations.

## EPA'S FY 2010 AGENCY FINANCIAL REPORT

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## ADMINISTRATOR'S LETTER

November 15, 2010

The President  
The White House  
Washington, D.C. 20500



Dear Mr. President:

I am pleased to submit the U.S. Environmental Protection Agency's *Fiscal Year 2010 Agency Financial Report*. This report presents the Agency's detailed financial information, accounting for the use of funds entrusted to us to carry out our mission to protect human health and the environment. It also provides readers with a sense of the Agency's priorities, strengths, and challenges in implementing the programs used to fulfill our mission. The financial and performance data presented in this report are reliable, complete, and updated.

This is the first of three integrated reporting components, an alternative to the consolidated *Performance and Accountability Report* produced in previous years. The remaining two reports, the *FY 2010 Annual Performance Report* and the *FY 2010 Performance and Accountability Highlights*, will be available in February 2011.

### **EPA's Seven Priorities**

Seven key themes guided our work in FY 2010, and will continue to guide us going forward. These priorities are grounded in science, transparency and the rule of law, and they are built around the challenges and opportunities inherent in our mission to protect the environment and human health.

*Taking Action on Climate Change:* During FY 2010, we affirmed decades of science and overcame years of inaction to finalize our endangerment finding on greenhouse gases. That led to a finalized reporting system, which will provide a better understanding of the sources of GHGs and guide efforts to reduce emissions, as well as the nation's first-ever greenhouse gas emissions standards for vehicles. We're also continuing to work on commonsense rules that will phase in emissions standards for our largest emitters. These actions are meant to complement any clean energy and climate legislation that might be taken up by Congress.

*Improving Air Quality:* American communities face serious health and environmental challenges from air pollution. During FY 2010, we finalized the first new standards for sulfur and nitrogen oxide in more than two decades. We also finalized rules on cement plants and used the "Good Neighbor" provision in the Clean Air Act to propose a transport rule that could have up to \$290 billion in health benefits for the American people. Improved monitoring, permitting, and enforcement will be critical building blocks for air quality improvement.

*Assuring the Safety of Chemicals:* One of our priorities is to make significant progress in assuring the safety of chemicals in our products, our environment, and our bodies. During FY 2010, we laid the groundwork for new reforms, pending legislative action by Congress. We also released our first-ever chemical management plans for several groups of substances and are strengthening our chemical safety program by coordinating and collaborating with the appropriate Federal agencies to aggressively assess and manage the risks of chemicals.

*Cleaning Up Our Communities:* Using all the tools at our disposal, including targeted enforcement and compliance efforts, we continue to focus on making safer, healthier communities. We are accelerating these efforts through our Superfund and Brownfields programs, particularly to spur environmental cleanup and job creation in disadvantaged communities. To enhance our strategies, we're developing stronger partnerships with stakeholders affected by our cleanups.

*Protecting America's Waters:* Today, our water quality and enforcement programs face complex challenges that demand both traditional and innovative strategies. To protect our waters, we've used the Recovery Act and our annual budget to make substantial investments in clean water and drinking water infrastructure. We also are making swift progress in historic clean-up efforts throughout the country, like in the Great Lakes and the Chesapeake Bay. And we're initiating new efforts to protect urban waters and deal with the growing challenge of stormwater runoff.

*Expanding the Conversation on Environmentalism and Working for Environmental Justice:* To protect low-income and minority populations disproportionately impacted by environmental and human-health hazards, we are working to engage citizens through regulations and enforcement, but also through community-based programs and outreach. We've issued clear rulemaking guidance so environmental justice concerns are a part of every decision we make at EPA, and we convened the first meeting in more than a decade of the leaders of the Interagency Working Group on Environmental Justice.

*Building Strong State and Tribal Partnerships:* States and tribal nations bear important responsibilities for environmental protection, but declining tax revenues and fiscal challenges are pressuring state agencies and tribal governments to do more with fewer resources. During FY 2010, we strengthened these partnerships and worked with states and tribes to put the money they received from the Recovery Act to work creating jobs and building more sustainable communities.

## **Management**

At EPA, we are taking steps to strengthen our management and assure that our internal controls are appropriate and effective, as required by the Office of Management and Budget Circular A-123. For FY 2010, no new material weaknesses were identified by the Agency or the Office of Inspector General. Additionally, the Agency removed three material weaknesses identified as part of the Agency's FY 2009 audited financial statement process. Two material weaknesses—Understated Unearned Revenue and Understated Accounts Receivable—were closed, and a third—Improvements in Billings Cost and Reconciling Unearned Revenue for Superfund State Contracts (SSC) Costs—was downgraded to a significant deficiency. The Agency continues to review the SSC process as part of its review of internal controls over financial activities to identify potential process issues and/or gaps in procedures. Section III of this report, *Other Accompanying Information*, provides additional information on EPA's internal control weaknesses. My assurance statement—provided under the Federal Managers' Financial Integrity Act—appears in Section I of this report, *Management's Discussion and Analysis*.

The Inspector General, in compliance with the Reports Consolidation Act of 2000, has identified what he considers to be the Agency's most serious management challenges in FY 2010. Meeting these challenges—such as measuring the results of our programs on human health and the environment or ensuring that the nation has the funding needed to construct, repair, and maintain its drinking water and wastewater infrastructure—might take years, as the Inspector General has acknowledged.

Meeting the challenges that come along with our Agency's mission will also require the collaborative efforts of many, including Congress, other federal agencies, states, tribes, and communities. EPA is committed to working with our partners and stakeholders to meet these challenges. Section III of this report, *Other Accompanying Information*, provides additional information on EPA's management challenges identified by the Office of the Inspector General and the Agency's response.

### **Future Direction**

With the significant challenges ahead of us, from local issues like clean water, to global concerns like climate change, EPA's mission to protect human health and the environment has never been more vital. The American people look to us for leadership, and there is no doubt the EPA is on the job. Over the course of the last fiscal year, we have made a number of historic environmental advances while protecting the health of all communities and restoring the trust of the American people.

As we continue to confront the challenges before us, I have tremendous confidence in the talent and spirit of our workforce. We will meet our responsibilities for enforcing the nation's environmental laws and regulations and will work with our state and local partners to meet our biggest environmental challenges.

Respectfully,



Lisa P. Jackson





# *EPA's FY 2010 Agency Financial Report*

## **Section I Management's Discussion and Analysis**

This document is one chapter from the *Fiscal Year 2010 Agency Financial Report*, U.S. Environmental Protection Agency (EPA-190-R-10-003), published on November 15, 2010. This document is available at: [www.epa.gov/ocfo/financialperformancereports.htm](http://www.epa.gov/ocfo/financialperformancereports.htm). Printed copies of EPA's *FY 2010 Agency Financial Report* are available from EPA's National Service Center for Environmental Publications at 1-800-490-9198 or by e-mail at: [nscep@bpa-lmit.com](mailto:nscep@bpa-lmit.com).

## INTRODUCTION

*Note: In previous years, the Environmental Protection Agency (EPA) produced a consolidated Performance and Accountability Report (PAR) to describe to the President, Congress, and the public the Agency's environmental program and financial performance over the course of a fiscal year. For Fiscal Year (FY) 2010, EPA has elected to pilot the Office of Management and Budget's (OMB's) three-part reporting approach as an alternative to the consolidated PAR. For FY 2010, EPA is producing an Agency Financial Report (AFR), an Annual Performance Report (APR) and an FY 2010 Performance and Accountability Highlights, pursuant to the OMB Circular A-136, Financial Reporting Requirements.*

EPA was established in 1970 to consolidate within one agency a variety of federal research, monitoring, standard-setting and enforcement activities to ensure environmental protection. For almost 40 years, EPA has been working for a cleaner, healthier environment for the American people. From regulating vehicle emissions to ensuring that drinking water is safe; from cleaning up toxic waste to assessing and ensuring the safety of chemicals; and from reducing greenhouse gas emissions to encouraging conservation, reuse, and recycling, EPA and its federal, state, local, community partners, and stakeholders have made enormous progress in protecting the nation's health and environment. America's air, water, and land are cleaner today than they were only a decade ago, and increasingly people are adopting a "greener" way of living. Across all sectors of society, people are making choices to preserve resources, prevent pollution, and reduce impacts on the environment.

As America's environmental steward, EPA leads the nation's environmental science, research, education, assessment and enforcement efforts. Keeping in line with our core values of science, transparency, and the rule of law, the Agency is strongly committed to meeting growing environmental protection needs. EPA's science provides the foundation for Agency decision-making and the basis for understanding and preparing to address future environmental needs and issues. Increased transparency is vital for improving programmatic and financial performance. By making environmental information both available and understandable, EPA advances its work and furthers public trust in its operations. EPA is working to restore and preserve ecosystems and to protect children and other vulnerable groups from environmental risks by strengthening regulations to protect air, water, and food, and, maintaining its compliance efforts.

EPA has made exceptional progress in protecting the environment. Despite the historic environmental advances made along the way, much work remains. The environmental problems the country faces today are often more complex than those of years past, and implementing solutions—both nationally and globally—is more challenging. These environmental concerns and other obstacles drive the Agency's commitment to ensure that communities, individuals, businesses, and state, local and tribal governments all have access to accurate information to assist in managing human health and environmental risks.

### What EPA Does

EPA's mission is to protect human health and the environment. To achieve a cleaner, healthier environment, the Agency:

- **Develops regulations to implement Congressional law.** EPA develops regulations as directed by environmental law written by Congress and sets national standards for environmental programs. Where allowed by law, EPA delegates to states and tribes the authority and responsibility to implement programs and ensure that standards are met.
- **Takes legal action through enforcement.** EPA enforces environmental laws, regulations, and standards ensuring consistency and a level playing field, and assists states, tribes, and the regulated community in understanding and complying with environmental requirements.
- **Awards grants to states, tribes, nonprofits and others.** EPA spends nearly half its budget on grants to state and tribal environmental programs, non-profits organizations, educational institutions, and other entities. These grants support program development and implementation, research to improve the scientific basis for decisions on environmental and human health issues, and sharing of best practices and innovative approaches.
- **Studies current environmental issues and anticipates future issues to further its mission.** EPA researches approaches to environmental challenges and assists in the development of innovative solutions to solve environmental problems through its nationwide laboratories.
- **Sponsors partnerships to reduce environmental impacts and promote environmental stewardship.** EPA Partnership Programs address a wide variety of environmental issues by working collaboratively with more than 13,000 companies, organizations, communities, and individuals.
- **Fosters environmental education and awareness.** EPA works to help people understand environmental issues, appreciate their shared responsibility for protecting the environment, and learn how they can reduce their use of energy and materials, reuse what they can, and recycle the rest. To promote environmental awareness, the Agency publishes a variety of materials and provides the public access to information on its website.

### Who EPA Is

EPA's 17,000 employees include engineers, scientists, and policy analysts; others are legal, public affairs, financial, information management, computer, and administrative specialists. EPA is headquartered in Washington, D.C. The Agency also has 10 regional offices and more than a dozen laboratories and field offices across the country. For more information, visit EPA at [www.epa.gov](http://www.epa.gov).

### How EPA Works: Collaborating With Partners and Stakeholders

Addressing today's complex environmental issues requires greater transparency and cooperative action; establishing and enhancing working partnerships; and combining EPA's resources with those of other federal agencies and state, local, and tribal partners. EPA understands that government alone cannot begin to address all of the nation's environmental challenges. The Agency also works with business and industry, non-profit organizations, environmental groups, and educational institutions in a wide variety of collaborative efforts.

# U.S. Environmental Protection Agency

The mission of the Environmental Protection Agency is to protect human health and the environment



# Highlights of Environmental

## Region 10 Reducing Diesel Emissions in Western United States

In 2010, EPA awarded over \$18.4 million in Diesel Emissions Reduction Act (DERA) grant funds through the West Coast Collaborative (WCC). These awards assist states, cities, tribes, and non-profits in reducing diesel emissions and protecting public health. When combined with matching funds of \$29.4 million from the private sector and State and local air agencies in Alaska, Arizona, California, Hawaii, Idaho, Nevada, Oregon, and Washington, the DERA grant funds were leveraged into almost \$700 million in monetized health benefits from reductions in fine particulate matter emissions. Upgrading 9,265 diesel engines resulted in emission reductions of 11,034 tons of nitrogen oxide and 438 tons of particulate matter. Many of these projects address air toxics risk in environmental justice communities.

<http://westcoastcollaborative.org/>

## Region 9 Enhancing Wastewater Collection and Treatment in Hawaii

A multibillion dollar settlement was reached with the city and county of Honolulu, Hawaii, to address its aging wastewater collection and treatment system. The agreement calls for aggressive action to upgrade the city's sewage system and establishes a long-term schedule for construction of secondary treatment at its Sand Island and Honouliuli plants. The cost of this work is estimated to exceed \$3.5 billion. In addition, the city will pay a \$1.6 million fine to resolve violations of the federal Clean Water Act for prior spills into the ocean. This settlement will significantly reduce both the public health risk caused by exposure to pathogens in raw sewage and the amount of harmful pollutants entering Honolulu's vibrant marine environment.

<http://www.epa.gov/region9/water/npdes/compliance.html>

## Region 7 Educating Schools on Mercury

In 2010, Region 7 responded to 21 accidental mercury spills and releases, many of which had occurred at schools. On average, accounting for chemistry lab jars, thermometers, thermostats, and barometers, each school possesses approximately 2 pounds of elemental mercury. A Region 7 cross-media team developed "Mercury: An Educator's Toolkit," containing grade-appropriate videos and pamphlets to inform and educate teachers, children, and parents about the dangers of mercury. The toolkit was distributed to all 7,463 elementary, middle, and high schools in Region 7.

<http://www.epa.gov/region07/mercury/>

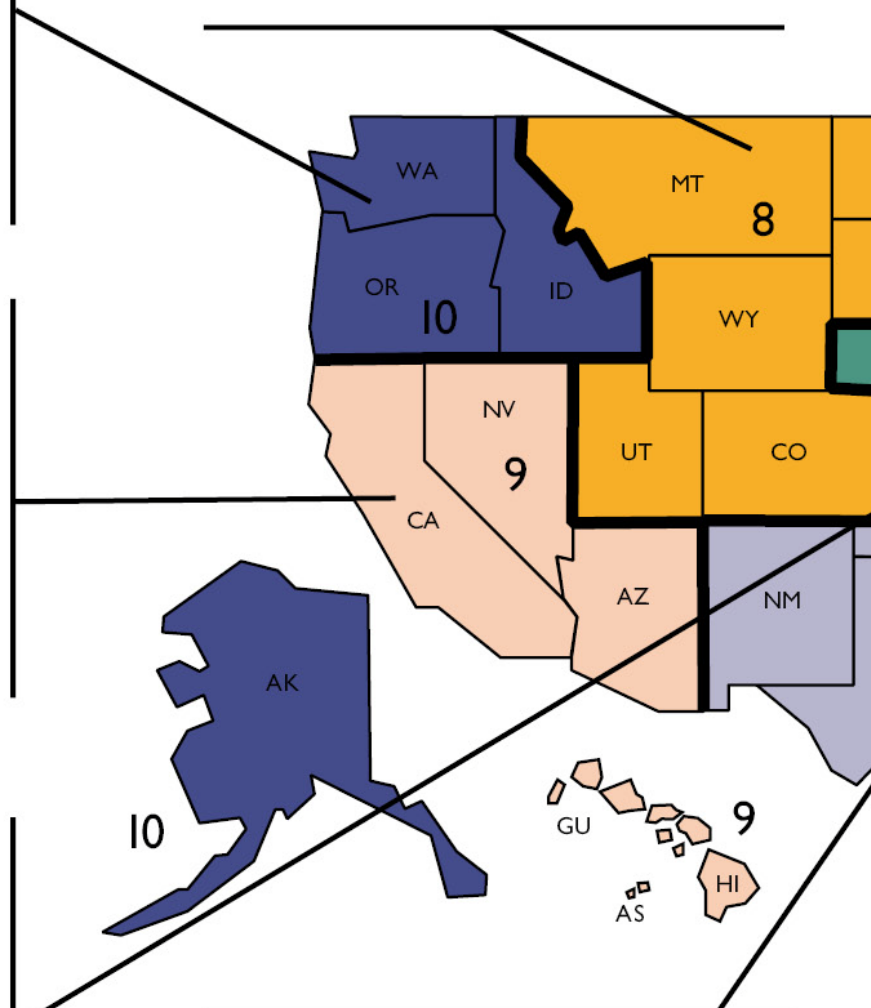
## Region 8 Protecting Public Health From Adverse Chemical Exposure

In 2010, Region 8 continued to protect and clean up our communities by removing 98,000 pounds of hazardous chemicals from 227 schools, protecting 79,000 children, including 17,000 Native American students in 78 schools in Indian Country. Region 8 also reduced public chemical exposure by cleaning up extensive lead contamination at the Eureka Mills site in Utah, and removing multi-contaminants at the Rocky Mountain Arsenal site in Colorado, where 2500 acres were added to an existing wildlife refuge.

[http://www.epa.gov/region8/conservation\\_recycling/tghsi.html](http://www.epa.gov/region8/conservation_recycling/tghsi.html)

<http://www.epa.gov/region8/superfund/ut/eureka>

<http://www.epa.gov/region8/superfund/co/rkymtnarsenal/>



## Region 6 Improving Texas Air Programs

Region 6 states have experienced some of the cleanest air quality in 30 years. The dramatic improvements in air quality have resulted in Houston and Baton Rouge—both previous severe ozone nonattainment areas—qualifying for exemptions from the implementation of Clean Air Act penalty fees based on their monitoring attainment of the 0.08 ppm 8-hour ozone standard. These dramatic improvements are due to aggressive control measures resulting from fully approved ozone SIPs, as well as targeted enforcement of air rules in these areas. Other areas in the Region (Beaumont-Port Arthur, El Paso, TX and West Memphis, AR) are not only monitoring attainment for the 8-hour and 1-hour ozone health based standards, but were redesignated to attainment.

<http://www.epa.gov/region6/index.htm>



# Accomplishment, EPA Regions

## Region 5 Funding the Great Lakes Restoration Initiative

In 2010, President Obama announced \$475 million in new funding for the Great Lakes Restoration Initiative, the largest investment in the Great Lakes in two decades. The initiative targets some of the most serious threats to the Great Lakes: invasive species, nonpoint source pollution, and contaminated sediment. EPA awarded more than 250 grants totaling approximately \$150 million to states, municipalities, universities, and nonprofit organizations.

<http://www.greatlakesrestoration.us/>

## Region 1 Mitigating Urban Stormwater Pollution

Region 1 broke new ground with first-time use of “residual designation” authority under the Clean Water Act to remedy severe water pollution problems in the Charles River watershed (metro Boston) and Long Creek in Portland, Maine. Permits will require extensive retrofitting of green infrastructure techniques to restore the natural water cycle. Ninety-eight percent of regulated areas near Long Creek signed on to watershed restoration utility, and retrofit construction is underway.

<http://www.restorelongcreek.org/>

## Region 2 Advancing New Jersey Site Cleanup With American Recovery and Reinvestment Act Funds

Supported by \$30 million in Recovery Act funding, Region 2 accelerated the cleanup of contaminated soil and debris at the Cornell Dubilier Electronics site, a former electronic parts and capacitor manufacturing facility in South Plainfield, New Jersey. The treatment and disposal of the soil, which is contaminated with semi-volatile organic compounds, metals, and polychlorinated biphenyls, will allow redevelopment to begin at the industrial park. Approximately 68 jobs have been created, and more than 41,000 tons of soil has already been treated. The project was included in the White House list of the 100 Recovery Act Projects That Are Changing America.

<http://www.epa.gov/region02/superfund/npl/cornell/>

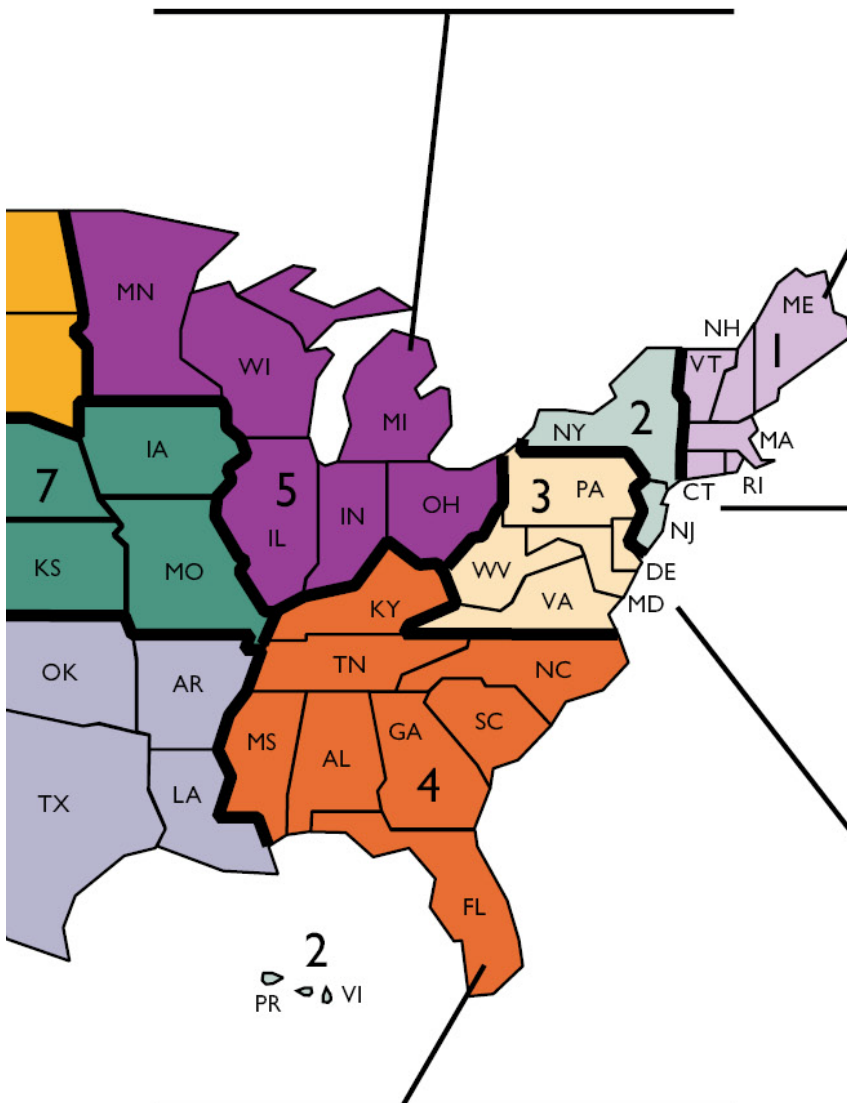
## Region 3 Implementing a Rigorous “Pollution Diet” for the Chesapeake Bay

Region 3 is developing a rigorous pollution diet for meeting water quality standards in the Chesapeake Bay and its tidal tributaries through a Total Maximum Daily Load (TMDL) to be issued in 2010. The nation’s largest TMDL will include strict limits on nitrogen, phosphorus and sediment pollution and will be informed by detailed implementation plans drawn by the six watershed states and the District of Columbia to meet the assigned pollution reductions. The TMDL and an associated accountability framework are serving as a model for the nation for the assurance required by the Clean Water Act that point and nonpoint source controls can be achieved to meet water quality goals.

<http://www.epa.gov/chesapeakebaytmdl>

## Region 4 Cleaning Up the Tennessee Valley Authority (TVA) Kingston Fossil Plant

When a dike used to contain fly ash at the plant failed in December 2008, ~5.4M cubic yards of fly ash were released into a pond, three adjacent sloughs, and the main Emory River channel. By September 2010, EPA had already completed the necessary time-critical removal actions (well ahead of schedule) and seamlessly transitioned to non-time-critical activities. Over 3.5M cubic yards of fly ash have already been removed from sensitive environments, and actions are underway to permanently and safely close the failed dredge cell. <http://www.epa.gov/region4/kingston/index.html>



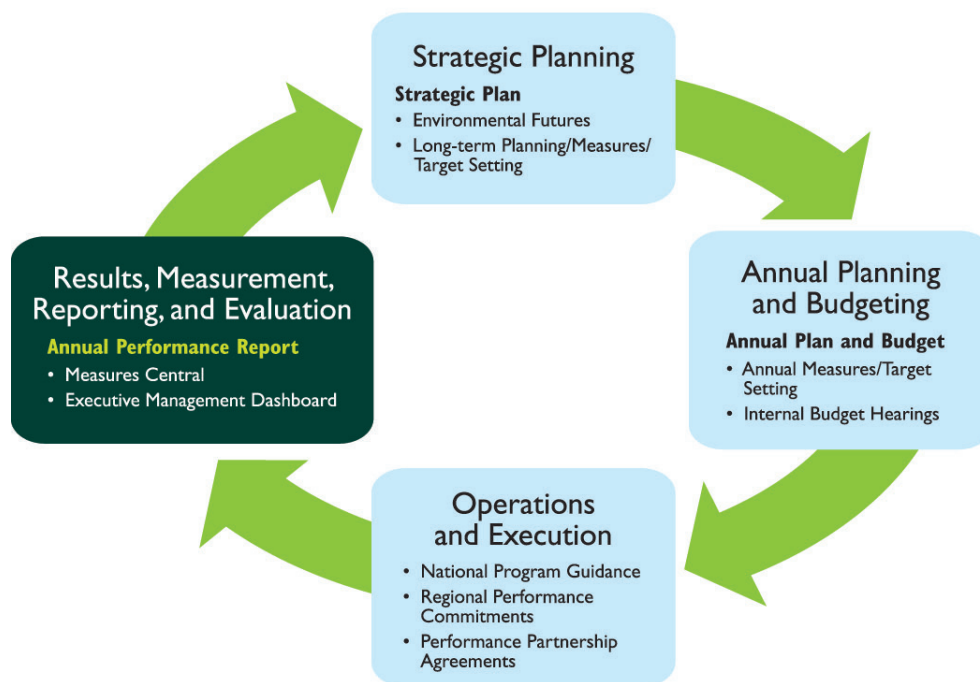


## A Framework for Performance Management

EPA is accountable for managing its programs and using its resources efficiently and effectively to achieve results. Measuring performance and making adjustments to improve results are essential to good management. In FY 2010, the Agency continued to advance its performance management capabilities and systems.

As required by the Government Performance and Results Act, EPA develops a five-year *Strategic Plan* ([www.epa.gov/ocfo/plan/plan.htm](http://www.epa.gov/ocfo/plan/plan.htm)), which establishes the Agency's long-term strategic goals, along with supporting objectives and strategic targets. To support achievement of the long-term goals and objectives outlined in the *Strategic Plan*, EPA prepares an *Annual Performance Plan and Budget*, which commits the Agency to a suite of annual performance measures. EPA reports its results against these annual performance measures and discusses progress toward longer-term objectives in its *Annual Performance Report*, which the Agency presents in its *Congressional Budget Justification*.

### EPA's Performance Management Framework



## FY 2010 Advances in Performance Management

During FY 2010, EPA developed and implemented a number of key initiatives to further strengthen the Agency's performance management system.

**New Strategic Plan.** The Agency published its *FY 2011-2015 EPA Strategic Plan* which provides a blueprint for accomplishing the Agency's priorities over the next five years. The streamlined, executive-level plan presents five strategic goals for advancing EPA's environmental and human-health outcomes and the Administrator's priorities. The plan also presents five cross-cutting fundamental strategies designed to transform how EPA delivers

environmental and human health protection both inside and outside the Agency. The *FY 2011-2015 EPA Strategic Plan* is available at [www.epa.gov/ocfo/plan/2015/FY\\_2011-2015\\_EPA\\_Strategic\\_Plan\\_with\\_hyperlinks.pdf](http://www.epa.gov/ocfo/plan/2015/FY_2011-2015_EPA_Strategic_Plan_with_hyperlinks.pdf).

### Fiscal Year 2011 – 2015 Strategic Goals

1. Taking Action on Climate Change and Improving Air Quality
2. Protecting America's Waters
3. Cleaning Up Communities and Advancing Sustainable Development
4. Ensuring the Safety of Chemicals and Preventing Pollution
5. Enforcing Environmental Laws

### Crosscutting Fundamental Strategies

1. Expanding the Conversation on Environmentalism
2. Working for Environmental Justice and Children's Health
3. Advancing Science, Research, and Technological Innovation
4. Strengthening State, Tribal, and International Partnerships
5. Strengthening EPA's Workforce and Capabilities

**Priority Goals.** In FY 2010, EPA established a limited number of high priority performance goals (Priority Goals), a new component of the Administration's performance management framework. Priority Goals communicate the performance improvements EPA will accomplish relative to its priorities using existing legislative authority and resources. These specific, measureable, near-term priority goals align with the Agency's long-term strategic and annual measures and serve as key indicators of progress toward the Agency's five strategic goals.

### EPA Priority Goals

EPA will improve the country's ability to measure and control Green House Gas (GHG) emissions. Building a foundation for action is essential.

- By June 15, 2011, EPA will make publicly available 100 percent of facility-level GHG emissions data submitted to EPA in compliance with the GHG Reporting Rule.
- In 2011, EPA working with the U.S. Department of Transportation will begin implementation of regulations designed to reduce the GHG emissions from light duty vehicles sold in the U.S. starting with model year 2012.

Clean water is essential for our quality of life and the health of our communities. EPA will take actions over the next two years to improve water quality.

- Chesapeake Bay watershed states (including the District of Columbia) will develop and submit Phase I watershed implementation plans by the end of calendar year (CY) 2010 and Phase II plans by the end of CY 2011 in support of EPA's final Chesapeake Bay Total Maximum Daily Load (TMDL) which will result in pollution limits needed to restore Chesapeake Bay water quality.
- Increase pollutant reducing enforcement actions in waters that do not meet water quality standards, and posts results and analysis on the web.
- Over the next two years, EPA will initiate the review/revision of at least four drinking water standards to strengthen public health protection.

EPA will ensure that environmental health and protection is delivered to our communities.

- By 2012, EPA will have initiated 20 enhanced Brownfields community level projects that will include a new area-wide planning effort to benefit under-served and economically disadvantaged communities. This will allow those communities to assess and address a single large or multiple Brownfields sites within their boundaries, thereby advancing area-wide planning to enable redevelopment of Brownfields properties on a broader scale. EPA will provide technical assistance, coordinate its enforcement, water and air quality programs, and work with other federal agencies, states, tribes, and local governments to implement associated targeted environmental improvements identified in each community's area-wide plan.

**American Recovery and Reinvestment Act of 2009 (Recovery Act) Reporting.** Since the end of FY 2009, EPA has tracked program performance for six key environmental programs funded through the Recovery Act which invest in clean water and drinking water projects, implement diesel emission reduction technologies, clean up leaking underground storage tanks, revitalize and reuse Brownfields, and clean up Superfund sites. To ensure accountability and demonstrate progress toward meeting program goals, EPA provides quarterly performance updates consistent with the timing of quarterly recipient reporting and weekly financial and activity reports. The Agency also tracks performance for the Office of Inspector General (OIG) work funded by the Recovery Act. These performance reports are available at <http://epa.gov/recovery/plans.html#plans>.

**Enhanced Executive Management Dashboard.** EPA's Executive Management Dashboard provides access to up-to-date performance and financial information for Agency managers to use in assessing program and performance status. Managers can view the results of their programs (as well as progress of other programs and regions) across time and determine whether they are meeting their annual targets. FY 2010 enhancements to the Dashboard included a new semi-annual reporting page—a live, single point of access to the Agency's comprehensive suite of performance measures and results.

## FY 2010 PROGRAM PERFORMANCE

During FY 2010, EPA and its partners achieved significant results under each of the five long-term environmental goals established in its *2006–2011 Strategic Plan*: 1) Clean Air and Global Climate Change, 2) Clean and Safe Water, 3) Land Preservation and Restoration, 4) Healthy Communities and Ecosystems, and 5) Compliance and Environmental Stewardship ([www.epa.gov/ocfo/plan/plan.htm](http://www.epa.gov/ocfo/plan/plan.htm)). Detailed FY 2010 performance results by strategic goal are presented in EPA's FY 2010 APR, which EPA will issue with its *FY 2012 Congressional Budget Justification* and post on the Agency's website at [www.epa.gov/ocfo/budget/index.htm](http://www.epa.gov/ocfo/budget/index.htm) by February 7, 2011.

To focus the Agency's efforts and guide its work in FY 2010 and beyond, the Administrator outlined seven priorities. This section highlights a few of the Agency's accomplishments in these priority areas.

### Administrator Jackson's Priorities

- |                                     |   |
|-------------------------------------|---|
| 1. Taking Action on Climate Change  | 5. Protecting America's Waters  |
| 2. Improving Air Quality            | 6. Expanding the Conversation on Environmentalism and Working for Environmental Justice |
| 3. Assuring the Safety of Chemicals | 7. Building Strong State and Tribal Partnerships  |
| 4. Cleaning Up Our Communities      |   |

### Progress Toward Performance Priorities

**Taking Action on Climate Change.** During FY 2010, EPA continued to make historic progress in addressing climate change. In December 2009, the Administrator signed two distinct findings under Section 202(a) of the Clean Air Act regarding greenhouse gases: an Endangerment Finding that six key greenhouse gases threaten the public health and welfare of current and future generations, and a Cause or Contribute Finding that the combined emissions of these greenhouse gases from new motor vehicles and engines contribute to the greenhouse gas pollution which threatens public health and welfare.

In April 2010, in response to the Administration's commitment to move toward a clean energy, climate friendly economy, EPA and the Department of Transportation jointly established new federal rules that set the first-ever national greenhouse gas emissions standards and will significantly increase the fuel economy of all new passenger cars and light trucks sold in the United States. The rules will conserve about 1.8 billion barrels of oil nationally, reduce nearly a billion tons of greenhouse gas emissions over the lives of the vehicles covered, and potentially save the average buyer of a 2016 model year car \$3,000 over the life of the vehicle.

**Improving Air Quality.** Despite the national trend of improving air quality over the last few decades, some American communities have not attained air quality standards and continue to face health and environmental challenges from air pollution. During FY 2010, EPA continued to implement the Clean Air Act Amendments of 1990 and other environmental laws to reduce and prevent harmful emissions from motor vehicles, fuels, power plants and other large sources that contribute to outdoor air pollution. The Agency issued a final new health standard for sulfur dioxide and strengthened the health-based standard for nitrogen dioxide, which when fully implemented, will improve public health protection from power plants, industrial facilities, and vehicles. EPA finalized revisions to the National Renewable Fuel Standard Program, which will expand development and use of renewable fuels and reduce imports of petroleum. When fully

implemented in 2022, the program is expected to reduce greenhouse gas emissions by 138 million metric tons. EPA and the Department of Transportation also proposed revisions to fuel economy labels on new cars and light duty trucks available for sale. The new, more comprehensive labels will include fuel economy ratings and information on greenhouse gas emissions and smog-forming air pollutants.

**Assuring the Safety of Chemicals.** During FY 2010, EPA substantially accelerated its pace in assessing the safety of the most ubiquitous chemicals. The Agency completed hazard characterizations for 270 high production volume (HPV) chemicals (chemicals produced/imported in amounts greater than one million pounds annually), a 65 percent increase over FY 2009; neared issuing a final Toxic Substances Control Act (TSCA) test rule for 19 HPVs (expected November 2010); and proposed a test rule covering 29 HPVs (February 2010); and proposed significant expansions and improvements in the TSCA Inventory Update Rule to obtain the data needed to assess chemical safety. EPA implemented the 2008 Lead-based Paint Renovation, Repair, and Painting Rule, effective April 2010, which requires renovation contractors to be trained and certified in the use of lead-safe work practices when renovating housing and child-occupied facilities built prior to 1978. EPA clarified confidential business information policies for reviewing chemical identity claims in health and safety studies, thereby allowing the public unprecedented access to important chemical safety information. Also in FY 2010, EPA for the first time provided free online public access in a downloadable format to the entire TSCA Chemical Substance Inventory, or approximately 84,000 chemicals in commerce, including 30 years of test data and other health and safety data on a portion of those chemicals ([www.epa.gov/opptintr/newchems/pubs/invntory.htm#datagov](http://www.epa.gov/opptintr/newchems/pubs/invntory.htm#datagov)).

**Cleaning Up Our Communities.** In FY 2010, EPA launched the Integrated Cleanup Initiative (ICI), a three-year strategy to improve land cleanup programs by accelerating cleanups, addressing a greater number of contaminated sites, and putting these sites back into productive use while protecting human health and the environment. The ICI is examining opportunities for improvements across all of EPA's land cleanup programs, including the Superfund, Brownfields, Federal Facilities, Resource Conservation and Recovery Act, and Underground Storage Tanks Programs. Under the Sustainable Communities Partnership, EPA, the Department of Housing and Urban Development and the Department of Transportation coordinate federal policies, programs, and resources to help build more sustainable communities. In February 2010, the Partnership selected five community pilot projects to integrate housing, transportation, water infrastructure, and land use planning and investment. EPA will provide assistance with environmental and economic analysis; planning for the assessment, cleanup, and sustainable redevelopment of Brownfields sites.

**Protecting America's Waters.** EPA and its partners continued to make progress in protecting America's waters. The Agency's Drinking Water State Revolving Fund (DWSRF) and Clean Water State Revolving Fund (CWSRF) Programs received significant resources as part of the American Recovery and Reinvestment Act of 2009 (ARRA) funds. CWSRF reported that 1,834 projects began construction; 235 were completed; and \$1.13 billion (30 percent of the ARRA resources) funded "green" projects. The DWSRF reported that 1,338 projects began construction; 183 were completed; and \$539 million (29 percent of the ARRA resources) funded "green" projects. (<http://water.epa.gov/aboutow/eparecovery/index.cfm>)

In FY 2010, EPA proposed revisions to the Total Coliform Rule, which requires public water systems to investigate and correct sanitary defects found when monitoring results indicate the system may be vulnerable to contamination. The Agency initiated a national dialogue on a new Drinking Water Strategy to identify better ways to address contaminants in groups, improve

drinking water technology, use multiple environmental statutes where appropriate, and foster a more collaborative dialogue with States on sharing information.

EPA continued its comprehensive watershed protection programs for the Great Lakes and Chesapeake Bay. The Great Lakes Restoration Initiative (GLRI) Action Plan, released in February 2010, is driving progress, with goals, objectives, and targets in five focus areas linked to planning and budget targets. At the close of FY 2010, more than \$150 million was obligated in over 250 grants and more than \$240 million in 13 principal interagency agreements. Funding was principally directed to on-the-ground Great Lakes restoration projects in the GLRI focus areas.

In May 2010, EPA and its Chesapeake Bay partner agencies released the *Strategy for Protecting and Restoring the Chesapeake Bay Watershed*, and in September 2010, an action plan for implementation. The strategy includes using rigorous regulations to restore clean water, implementing new conservation practices on four million acres of farms, conserving two million acres of undeveloped land, and rebuilding oyster beds in 20 tributaries of the bay. To increase accountability, federal agencies will establish milestones every two years to measure actions taken to achieve longer-term environmental goals. To restore clean water, EPA will implement the Chesapeake total maximum daily load (a pollution diet for the Chesapeake Bay and local waterways), expand regulation of urban and suburban stormwater and concentrated animal feeding operations, and increase enforcement activities and funding for state regulatory programs.

**Expanding the Conversation on Environmentalism and Working for Environmental Justice.** EPA significantly advanced its outreach and protection efforts for communities historically underrepresented in the Agency's decision-making. In July 2010, EPA released for public comment its draft Plan EJ 2014, a four-year roadmap to help the Agency develop stronger community relationships and improve environmental and health conditions in overburdened communities. EPA also issued interim guidance to give environmental justice communities a voice in shaping environmental rules and regulations. The guidance outlines steps the Agency can take to incorporate the needs of communities overburdened by pollution into its decision-making, scientific analysis, and rule development. EPA and the White House Council on Environmental Quality reconvened the Interagency Working Group on Environmental Justice, comprising five cabinet agencies dedicated to ensuring that people have strong federal protection from environmental and health hazards, and marking the Agency's recommitment to advancing Executive Order 12898, "Federal Actions to Address Environmental Justice in Minority Populations and Low-Income Populations."

**Building Strong State and Tribal Partnerships.** In FY 2010, EPA worked in partnership with states and tribes to develop and implement environmental programs and, where appropriate, used its expertise to bolster state and tribal efforts. Many state governments are running large deficits and implementing budget cuts due to the ongoing effects of the economic downturn. In FY 2010, EPA increased its consultations with state officials on rulemaking, accelerated efforts to identify opportunities for enhanced work sharing and resources and workload flexibility. The Administrator also emphasized the continued need to provide strong funding to support state governments in testimony to Congress. In addition, within eight months of the President's memorandum on Tribal Consultation, EPA finalized a Tribal Consultation Plan, which will be fully implemented in early FY 2011. The policy ensures consistent implementation of EPA's 1984 Indian Policy and Executive Order 13175 and will result in broad consultation and coordination with tribes, and help to strengthen the partnership between tribes and EPA (see [www.epa.gov/indian/consultation/index.htm](http://www.epa.gov/indian/consultation/index.htm)).



## Deepwater Horizon BP Oil Spill in the Gulf of Mexico

In FY 2010, the United States experienced one of the worst environmental disasters in its history, the April 20, 2010 Deepwater Horizon BP oil spill in the Gulf of Mexico. EPA immediately began monitoring the area to determine potential public health and environmental concerns—primarily air quality concerns from the spill and controlled burn emissions—and preparing for the immediate and long-term environmental fallout from the spill.

As of one of many agencies supporting the U.S. Coast Guard-led federal response, EPA vice-chaired the National Response Team for the Deepwater Horizon BP Response, which provided round the clock coordination among the involved federal agencies. Among its efforts, EPA:

- Collected and evaluated over 5,000 samples along the shoreline and beyond for chemicals related to oil and dispersants in the air, water, sediment, waste. EPA's monitoring and sampling activities provided the Coast Guard, other federal agencies, states, and local government with data information to inform decisions about seafood safety, habitat impacts, and beach closure issues.
- Supported and advised Coast Guard efforts to clean the reclaimed oil and waste from the shoreline.
- Worked with the National Oceanic Atmospheric Administration to design a monitoring strategy for subsea dispersant use, evaluated the toxicity of dispersants, and provided oversight on the use of dispersants.

EPA mobilized its Headquarters and Regional Emergency Operations Center and established a communications network to provide timely information to the public. The Agency's [www.epa.gov/BPspill](http://www.epa.gov/BPspill) site includes air, water, and sediment quality monitoring updates; Q&As on pertinent issues; and links to additional response sites. EPA also used social media such as Facebook and Twitter, to provide a continuous flow of information from major announcements to notices of local developments and meetings.

In September 2010, the Administration outlined an aggressive Gulf Coast ecosystem restoration plan which established the Gulf Coast Ecosystem Task Force to be led by EPA Administrator Lisa Jackson. The task force, an intergovernmental advisory body, is charged with coordinating restoration programs and projects in the Gulf region. It will focus on efforts to create more resilient and healthy Gulf Coast ecosystems, while also encouraging support for economic recovery and long-term health issues. As part of the restoration, EPA will work with federal, state, and local partners and stakeholders to develop and implement science-based restoration efforts.

## FINANCIAL ANALYSIS AND STEWARDSHIP INFORMATION

### EPA's Sound Financial Management: Good for the Environment, Good for the Nation

EPA continues to carry out its mission to protect human health and the environment with the support of strong financial management. The accomplishments described in this section demonstrate that EPA adheres to the highest standards for financial management.

- **Audit opinion.** For the 11th consecutive year, EPA's OIG issued an unqualified or "clean" opinion on the Agency's financial statements. This means that EPA's financial statements are presented fairly in all material respects and that they conform to generally accepted accounting principles for the federal government. In simple terms, a clean opinion means that the Agency's numbers are reliable.
- **Compliance with federal financial systems requirements.** EPA is compliant with the Federal Financial Management Improvement Act. This means that the Agency's financial systems comply substantially with federal system requirements and accounting standards. EPA uses reliable and timely information in its financial system to make sound decisions on the use of Agency resources.
- **Deepwater Horizon BP Oil Spill.** EPA developed a Stewardship Plan that modeled the successful Recovery Act Stewardship Plan. This risk assessment and mitigation plan stresses the importance of thorough cost documentation to support current and future claims for reimbursement from responsible parties and to maintain accountability to taxpayers for federal funds. EPA has tracked and accounted for all Agency resources for Agency work supporting the oil spill response during FY 2010.
- **Open Government.** In response to the President's Open Government Directive, EPA established an Open Government Plan to promote the three core values of Open Government: transparency, participation, and collaboration with the public. In conjunction with the Open Government Plan, EPA established its Open Government Data Quality Plan to ensure the integrity of spending data published on USASpending.gov.
- **Recovery Act.** EPA is compliant with OMB guidance and Recovery Act requirements in its financial reporting. This means the Agency submitted accurate and timely financial reports. EPA also ensured its financial reporting was transparent to the public by posting data to the EPA Recovery Act website and submitting data to the Recovery and Accountability Transparency Board for posting to the government-wide website.

In addition to these accomplishments, EPA has made significant achievements in FY 2010, a few of which are highlighted below:

- **Balanced checkbook.** EPA's checkbook is balanced—the Agency general ledger matches the fund balance records maintained by the Department of the Treasury. This match translates to greater integrity of financial reports and budget results.
- **Indirect Rate on Interagency Agreements.** During FY 2010, agreements under the Oil Pollution Act, the Economy Act and Cooperation Authorities collected approximately \$3.7 million in indirect costs, including approximately \$426,000 in indirect costs associated with EPA's work on the Deepwater Horizon BP oil spill cleanup effort.

- **Timely payments.** EPA paid 99.82 percent of its invoices on time and avoided late payment penalties. The improper payment rate was less than 0.09 percent, which means that the correct amount was paid to the right recipient in nearly every instance. Furthermore, EPA paid 100 percent of its grant payments electronically and 99.6 percent of them on time.
- **Innovative Financing.** EPA continued to leverage federal funds through an Environmental Finance Program that works to lower costs, increase investments, promote public-private partnerships and build financial capacity. The Program's network of university-based centers has provided educational, technical and analytical support in 48 states. For every dollar that EPA has invested in the centers, the centers have invested more than three dollars toward environmental improvement projects.
- **Increased Outreach.** EPA has launched a Financial Management Wiki Intranet site to provide a forum for Agency finance and program staff to collaborate electronically in real time in an era of transparency and accountability. This site allows staff to edit impending financial policies, vet responses to Frequently Asked Questions, grants access to financial reports and event calendar. This wiki was design as another tool to further foster the One EPA concept.

## **EPA's Financial Statements for Fiscal Year 2010**

### **EPA's Balance Sheet and Statement of Net Cost Highlight EPA's Overall Financial Condition**

Financial statements are formal financial records that document EPA's activities at the transaction level, where a "financial event" occurs. A financial event is any occurrence having financial consequences to the federal government related to the receipt of appropriations or other financial resources; acquisition of goods or services; payments or collections; recognition of guarantees, benefits to be provided, and other potential liabilities; or other reportable financial activities.

EPA prepares four consolidated statements: 1) Balance Sheet, 2) Statement of Net Cost, 3) Statement of Changes in Net Position, and 4) Statement of Custodial Activity, and one combined statement: Statement of Budgetary Resources. Together, these statements with their accompanying notes provide the complete picture of EPA's financial situation. Reviewers can glean a snapshot of EPA's overall financial condition by examining key pieces of information from these statements. The complete statements with accompanying notes, as well as the auditor's opinion, are available in Section III of this report.

The **Balance Sheet** displays assets, liabilities, and net position as of September 30, 2010, and September 30, 2009. The **Statement of Net Cost** shows EPA's gross cost to operate, minus exchange revenue earned from its activities. Together, these two statements provide information about key components of EPA's financial condition—assets, liabilities, net position, and net cost of operations.

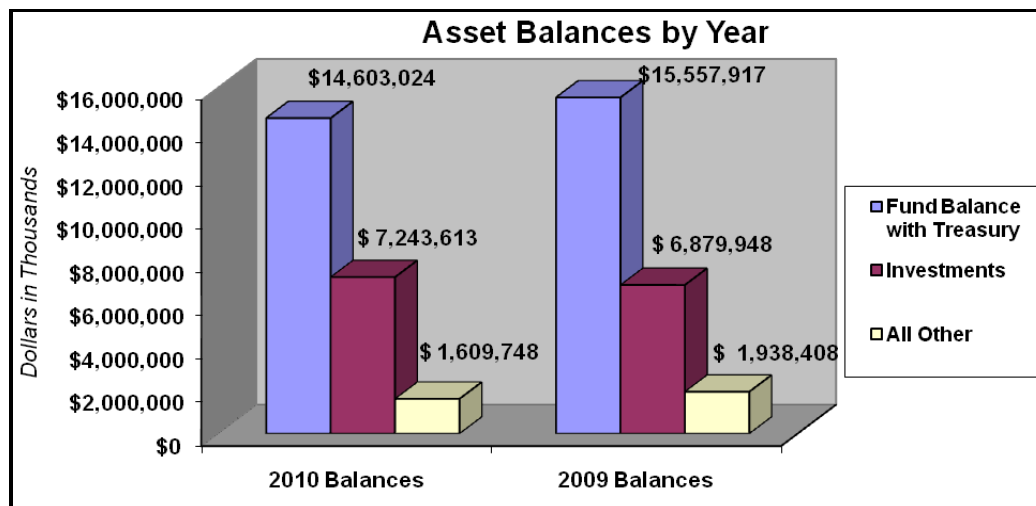
<i>(Dollars in Thousands)</i>	<i>FY 2010</i>	<i>FY 2009</i>	<i>Dollar Change</i>	<i>Percent Change</i>
Total Assets	\$ 23,456,385	\$ 24,376,273	\$ (919,888)	(4)%
Total Liabilities	\$ 2,343,763	\$ 2,170,782	\$ 172,981	8%
Net Position	\$ 21,112,622	\$ 22,205,491	\$ (1,092,869)	(5)%
Net Cost of Operations	\$ 11,712,781	\$ 8,147,351	\$ 3,565,430	44%

### **Assets—What EPA Owns and Manages**

EPA's assets totaled \$ 23 billion at the end of FY 2010. More than 93 percent of EPA's assets fall into two categories: 1) its Fund balance with the Department of the Treasury, the equivalent of the Agency's "checkbook" balance available to pay expenses, and 2) investments that will be used to pay for future Superfund or leaking underground storage tank cleanups. All of EPA's investments are backed by U.S. government securities.

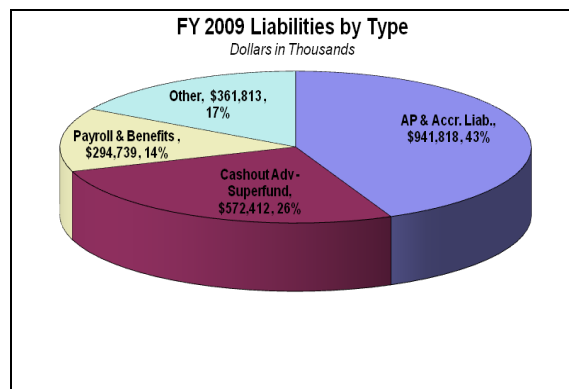
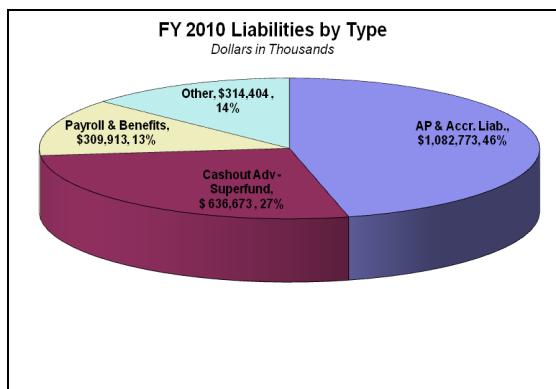
### **Accounting 101**

- **Assets:** What EPA owns and manages.
- **Liabilities:** Amounts EPA owes as a result of past transactions or events.
- **Net position:** The difference between assets and liabilities (similar to net worth).
- **Net cost of operations:** The difference between the costs incurred by EPA programs and EPA's revenues.



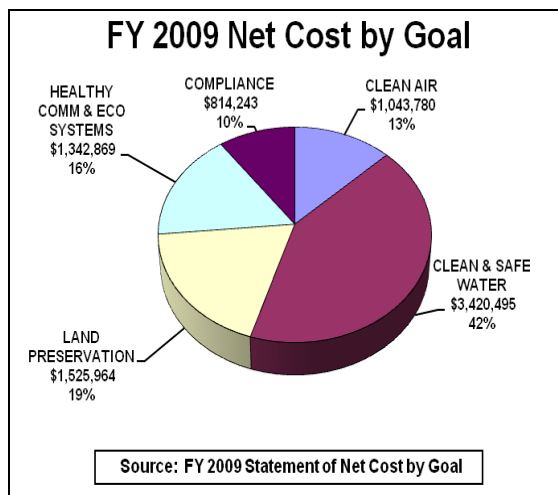
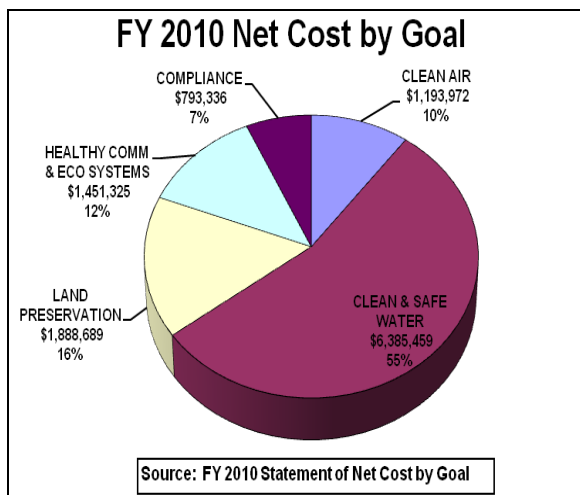
### **Liabilities—What EPA Owes**

EPA's liabilities were \$2 billion at the end of FY 2010, an increase of \$172 million from the FY 2009 level. EPA's largest liability, its combined accounts payable and accrued liabilities, includes \$1.08 billion and represents 46 percent of what the Agency owes. The next largest category, representing 27 percent of EPA's liabilities, covers Superfund cashout advances which include funds paid by EPA to fund cleanup of contaminated sites under the Superfund program. The remaining two categories represent 27 percent of the Agency's liabilities. Payroll and benefits payable include salaries, pensions, and other actuarial liabilities. Other liabilities include EPA's debt due to Treasury, custodial liabilities that are necessary to maintain assets for which EPA serves as custodian, environmental cleanup costs, and other miscellaneous liabilities. The charts below compare FY 2010 and FY 2009 liabilities by major categories.



### Net Cost of Operations—How EPA Used Its Funds

The charts below show how EPA divided its funds among its five program goal areas in FY 2010 and FY 2009:



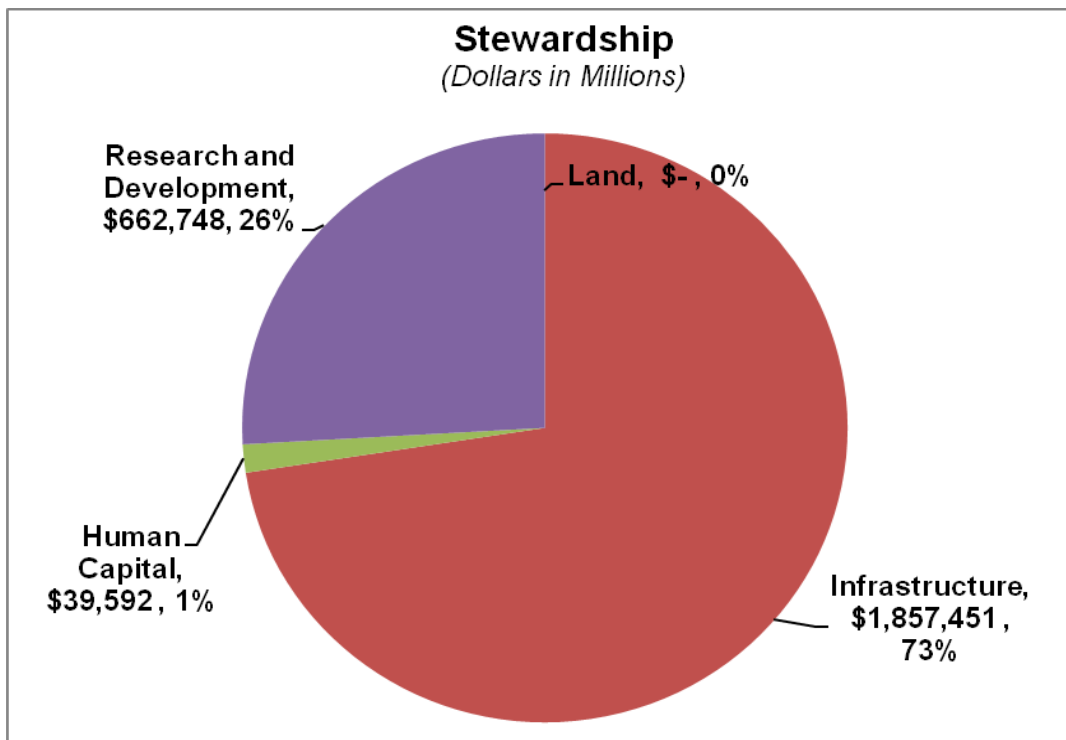
*Goal areas: clean air and global climate change, clean and safe water, land preservation and restoration, healthy communities and ecosystems, and compliance and environmental stewardship.*

### Responsible Financial Stewardship

EPA serves as a steward on behalf of the American people. The chart below presents two categories of stewardship: RSI (Stewardship Land) and RSSI (Research and Development, Infrastructure, and Human Capital). In FY 2010, EPA devoted a total of \$2.5 billion to its stewardship activities.

Per Federal Accounting Standards Advisory Board, stewardship investments consist of expenditures made by the Agency for the long-term benefit of the nation that do not result in the federal government acquiring tangible assets. As reflected in the graph below, the FY 2010 land totals \$0 as no Superfund Real Estate actions took place which involved the transfer of funds to

or from the agency. Two properties were transferred from the agency, while two properties were acquired by the agency; however, all actions involved no acquisition or transfer costs.



- Infrastructure efforts focus on clean water and drinking water facilities. EPA funds construction of wastewater treatment projects and provides grants to states to support wastewater and drinking water treatment facilities. EPA devoted nearly \$1.85 billion in FY 2010 to projects to ensure that people have clean, safe drinking water.
- Research and development activities enable EPA to identify and assess important risks to human health and the environment. This critical research investment provides the basis for EPA's regulatory efforts including those to protect children's health and at-risk communities, drinking water, and the nation's ecosystems.
- Human capital includes EPA's educational outreach and research fellowships, both designed to enhance the nation's environmental capacity.
- Land includes contaminated sites to which EPA acquires title under the Superfund authority. This land needs remediation and cleanup because its quality is well below any usable and manageable standards. To gain access to contaminated sites, EPA acquires easements that are in good and usable condition. These easements also serve to isolate the site and restrict usage while the cleanup is taking place.

A detailed discussion of this information is available in the Required Supplementary Stewardship Information located in Section III of this report.



## Financial Management for the Future

As challenges to the environment grow, sound stewardship of EPA's financial resources becomes increasingly critical to the Agency's ability to protect the environment and human health locally, nationally, and internationally. Reliable, accurate, and timely financial information is essential to inform decisions on how to address land, water, air, and ecosystem issues.

To strengthen EPA's financial stewardship capabilities, the Office of the Chief Financial Officer (OCFO) has focused on the fundamental elements of financial management: people and systems.

**People:** EPA leverages every available tool to recruit the best people with the necessary skills to meet tomorrow's financial challenges:

- EPA trains its staff in financial analysis and forecasting, in addition to processes. Staff need to understand the financial data and what the data means. EPA is integrating financial information into everyday decision-making, so that the Agency maximizes the use of its resources.
- EPA recruits financial managers and accounting students through its Student Career Experience Program and Federal Career Intern Program. New recruits are technologically savvy and utilize modern tools to drive financial decisions.

**Systems:** EPA's Integrated Financial Management System has served the Agency for 20 years, but the technologies used by this legacy system are inadequate to meet EPA's financial management objectives. In FY 2010, the Agency designed a component-based approach to modernize its financial system. As approved by OMB through its Financial Systems Advisory Board, EPA is moving forward with the development and deployment of a new core financial system to improve the way that EPA manages its business while strengthening accountability and financial controls.

The Core Financial System will be based on a Commercial-Off-the-Shelf software solution (Momentum – a product of CGI Federal) that addresses EPA's most critical business needs, including:

- General Ledger
- Accounts Payable
- Accounts Receivable
- Property
- Project Cost
- Intra-Governmental Transactions
- Budget Execution
- General Ledger

The Core Financial System component will be a Web-based, cloud-ready, open architecture application managed at CGI's certified Phoenix Data Center, a shared service provider in compliance with the Financial Management Line of Business (FMLoB).

The modernization strategy then builds upon the Core through implementation of five additional components, which are subject to future review by OMB:

- Implementation of the Common Government-Wide Account Code Structure
- Human Resources and Time and Attendance
- Budget Formulation
- Superfund Cost Accounting
- Payment Systems

Each of these components will be complemented by corresponding incremental advances in EPA's data warehousing and reporting capabilities. These components will be initiated through a large architecture that builds upon the Core Financial Component.

By positioning the Core Financial System as the centerpiece of EPA's modernization strategy, the Agency plans to build future components incrementally upon the basis of the Core to achieve a more unified and integrated infrastructure. This infrastructure will work towards the consolidation of resources across systems to centralize the infrastructure footprint and reduce financial management information silos across the organization.

The Agency is presently examining the sequencing of the remaining five components in the implementation plan to ensure that these investments are strategically scheduled and effectively resourced to build off the success of the Core Financial System.

### **Government-Wide Financial Performance Measurements**

The U.S. Chief Financial Officers Council publishes government-wide performance measures on the "Metric Tracking System" (MTS) website, [www.fido.gov/mts/cfo/public](http://www.fido.gov/mts/cfo/public). These measures are a series of key financial management indicators that allow government financial managers, Congress, and other stakeholders to assess the financial performance of each agency.

During FY 2010, the Agency continued to maintain its green status in seven of the nine performance metrics. The yellow rating on the "Travel Card Delinquency Rates-Individually Billed Account" results from a new method that JPMorgan Chase is calculating based on the OMB formula of 31+ days past due.<sup>1</sup> The red rating on the "Delinquent Accounts Receivable From the Public Over 180 Days" metric is a long-standing issue with EPA as it relates largely to Superfund litigation issues which require an extended period of time to resolve and/or collect and usually involves the assistance of the Department of Justice. Although improvement is being realized through litigation debt collections made by the Department of Justice on EPA's behalf, EPA plans to review internal debts with high dollar values or inactive collection activity to determine and remedy obstacles that may be preventing collection.

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<sup>1</sup> In July 2010, JPMorgan Chase changed the methodology of calculating EPA's travel card delinquency rates for individually billed accounts. The new method reports outstanding balances at 31+ days as past due. The previous methodology used the formula of 61+ days to report the past due balance.

Government-Wide Financial Performance Metrics		
Financial Management Indicator	Rating September 2010	Rating September 2009
<ul style="list-style-type: none"> <li>• Fund Balance with Treasury, Net</li> <li>• Amount in Suspense (Absolute) Greater Than 60 Days Old</li> <li>• Electronic Payments</li> <li>• Percent Non-Credit Invoices Paid On-Time</li> <li>• Interest Penalties Paid</li> <li>• Purchase Card Delinquency Rates</li> <li>• Travel Card Delinquency Rates – Centrally Billed</li> </ul>	✓	✓
<ul style="list-style-type: none"> <li>• Travel Card Delinquency Rates – Individually Billed</li> </ul>	✓	✓
<ul style="list-style-type: none"> <li>• Delinquent Accounts Receivable from Public Over 180 Days</li> </ul>	✗	✗

### Limitations of the Principal Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of EPA, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the entity in accordance with U.S. generally accepted accounting principles for federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources that are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. government, a sovereign entity.

## IMPROVING MANAGEMENT AND RESULTS

### Office of Inspector General Audits, Reviews, and Investigations

EPA's OIG contributes to the Agency's mission to improve human health and environmental protection by assessing the efficiency and effectiveness of EPA's program management and results; ensuring that Agency resources are used as intended; developing recommendations for improvements and cost savings; and providing oversight and advisory assistance in helping EPA carry out its Recovery Act objectives. In FY 2010, OIG identified key management challenges and internal control weaknesses and provided more than 940 recommendations accounting for \$20 million in potential savings and recoveries and more than 390 actions taken for improvement from OIG recommendations.

OIG also contributes to the integrity of and public confidence in the Agency's programs and to the security of its resources by preventing and detecting possible fraud, waste, and abuse and pursuing judicial and administrative remedies. For example, in response to OIG recommendations the Agency: established procedures for identifying and mitigating dietary risks to consumers from pesticides that have never been registered; agreed to establish a schedule to complete Federal Continuity Directive requirements, designate a lead office for Continuity of Operations (COOP) planning, and identify Headquarters and regional responsibilities and authorities; and developed a strategic plan, annual plan, and performance measures for reporting its results in meeting the Agency's National Agenda to Protect Children's Health from Environmental Threats. Additionally, OIG investigations accounted for 115 criminal, civil, or administrative enforcement actions or allegations disproved including \$3.4 million in Recovery Act fund cost savings.

### Grants Management

EPA has met or exceeded major performance metrics under its second long-term Grants Management Plan (2009-2013), including grant closeout and competition goals. The Grants Management Plan builds on the progress made over the past five years to prevent the reoccurrence of a grants management weakness.

EPA Grants Management Performance Measures			
Performance Measure	Target	Progress in FY 2009	Progress in FY 2010
Percentage of eligible grants closed out	99% 90%	99.6% in 2007 and earlier 92.9% in 2008	99.6% in 2008 and earlier 95.6% in 2009
Percentage of new grants subject to the competition policy that are competed	90%	97%	96.4%

## EPA HOLDS ITSELF ACCOUNTABLE: SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

### Federal Managers' Financial Integrity Act

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to conduct an annual evaluation of their internal controls over programs (FMFIA Section 2) and financial systems (FMFIA Section 4) and report the results to the President and Congress. In addition, agencies are required to report on the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Appendix A of *OMB Circular A-123*.

Every year, all of EPA's national program and regional offices conduct assessments and submit annual assurance letters attesting to the soundness of the internal controls within their organizations. These assurance letters provide the basis for the Administrator's annual statement of assurance on the adequacy of EPA's internal controls over programmatic operations and financial systems. The Administrator's FY 2010 statement of assurance is provided below. Based on the results of the Agency's FY 2010 evaluation, the Administrator can provide reasonable assurance on the adequacy and effectiveness of EPA's internal controls over programs and financial systems.

#### EPA's FY 2010 Key Management Challenges Identified by the Office of Inspector General

1. The Need for a National Environmental Policy
2. Water and Wastewater Infrastructure
3. Oversight of Delegation of States
4. State Reuse of Contaminated Sites
5. Limited Capability to Respond to Cyber Security
6. Reducing Domestic Greenhouse Gas Emissions
7. EPA's Framework for Assessing and Managing Chemical Risks

To evaluate its internal controls over financial reporting (as required by *OMB Circular A-123*, Appendix A), the Agency reviewed 10 key financial processes and 296 key controls. Based on this evaluation, no new material weaknesses and one new significant deficiency were identified and internal controls were found to be operating effectively and efficiently.

### Management Assurances


For FY 2010, no new material weaknesses were identified by the Agency or the OIG. Additionally, the Agency removed three material weaknesses identified as part of the Agency's FY 2009 audited financial statement process. Two material weaknesses—Understated Unearned Revenue and Understated Accounts Receivable—were closed, and a third—Improvements in Billings Cost and Reconciling Unearned Revenue for Superfund State Contracts (SSC) Costs—was downgraded to a significant deficiency. The Agency continues to review the SSC process as part of its review of internal controls over financial activities to identify potential process issues and/or gaps in procedures. Section III of this report provides additional information on EPA's internal control weaknesses.

## Fiscal Year 2010 Annual Assurance Statement

The U.S. Environmental Protection Agency (EPA) conducted its FY 2010 assessment of the effectiveness of internal controls over programmatic operations and financial activities, as well as conformance of financial systems to government-wide standards. The assessment was conducted in compliance with the *Federal Managers' Financial Integrity Act* (FMFIA), OMB Circular A-123, *Management's Responsibility for Internal Control*, and other applicable laws and regulations.

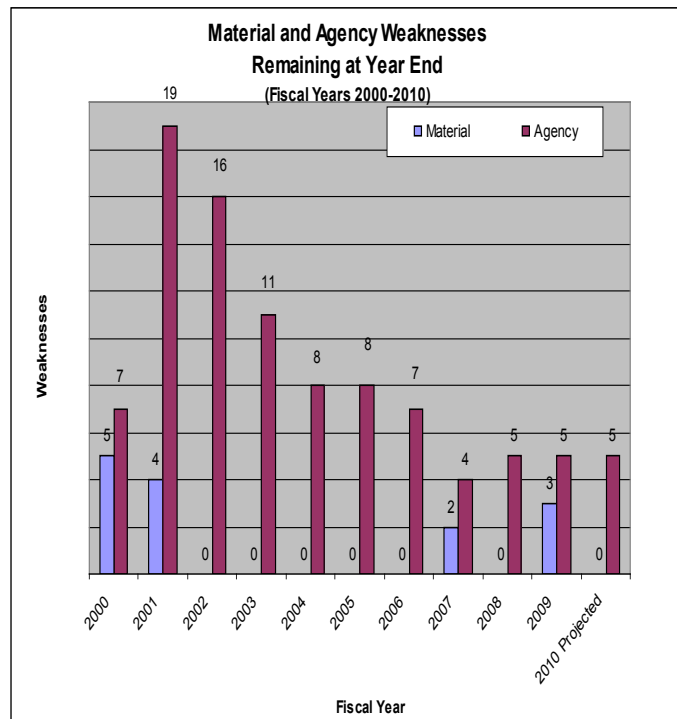
Based on the results of EPA's assessment and no findings of material weaknesses, I am providing reasonable assurance that the Agency's internal controls over programmatic operations were operating effectively and financial systems conform to government-wide standards as of September 30, 2010.

In addition, based on the results of EPA's assessment of the effectiveness of internal controls over financial activities and no findings of material weaknesses as of June 30, 2010, I am providing reasonable assurance that EPA's internal controls over financial activities were operating effectively.

  
 Lisa P. Jackson  
 Administrator

November 10, 2010  
 Date

EPA is also addressing a number of less severe weaknesses. Corrective actions are underway to address Agency-level weaknesses and significant deficiencies. In FY 2010, the Agency closed one Agency-level weakness, identified one new Agency-level weakness and significant deficiency, and is carrying over four Agency-level weaknesses. Details about corrective actions underway to rectify remaining Agency-level weaknesses are discussed under "Management Challenges and Integrity Weaknesses" in Section III of this report. EPA will continue to monitor progress in correcting these issues until they are resolved. The accompanying graph depicts EPA's progress in correcting its material and Agency-level weaknesses since 2000.



EPA continues to emphasize the importance of maintaining effective internal controls. In FY 2010, the Agency continued to conduct internal program compliance reviews of program and regional offices to help inform and strengthen its FMFIA implementation. Additionally, the Agency is developing training, which will include tools and materials to help Agency managers and staff in fulfilling their roles and responsibilities for maintaining an effective internal controls program. EPA expects the training to be available in FY 2011.



## **Federal Financial Management Improvement Act**

The Federal Financial Management Improvement Act (FFMIA) requires that agencies implement and maintain financial management systems that comply with 1) federal financial management system requirements, 2) applicable federal accounting standards, and 3) the U.S. Government Standard General Ledger. Annually, agency heads are required to assess and report on whether these systems comply with FFMIA.

EPA's FY 2010 assessment included the following:

- Validated the effectiveness of controls examined in the A-123 reviews.
- The OIG's report on the FY 2010 financial statement audit showed no material weaknesses related to financial management systems.
- The Agency's annual Federal Information Security Management Act Report did not identify any material weaknesses.
- The Agency conducted other systems-related activities, including:
  - Annual recertification of user access to the Agency's accounting system.
  - Completion of security self-assessments with the online Automated System Security Evaluation and Remediation Tracking (ASSERT) tool for the accounting system.

Based on the assessment described above, the Agency is in compliance with the FFMIA for FY 2010.

## **Federal Information Security Management Act**

The Federal Information Security Management Act (FISMA) directs federal agencies to evaluate the effectiveness of their information security programs and practices annually and submit a report—including an independent evaluation by the Inspector General—to the Department of Homeland Security (DHS) and OMB. Agencies also report quarterly and annually to DHS and OMB on the status of remediation of identified weaknesses.

EPA's Chief Information Officer, senior agency program officials, and the Inspector General's FY 2010 FISMA Report cite no significant or material weakness in information security. However, the Inspector General noted where EPA needs to make significant improvements in establishing and maintaining an account and should identify a management program for user accounts that reside on the Agency's network. The report presents the results of the Agency's annual security program reviews and reflects EPA's continued efforts to ensure that information assets are protected and secured in a manner consistent with the risk and magnitude of the harm resulting from the loss, misuse, or unauthorized access to or modification of information. The Agency plans to focus its FY 2011 efforts on improving the effectiveness of the Agency Information Security Program by implementing risk-based improvements identified by a series of metrics based on key performance indicators.

## **Inspector General Act Amendments of 1988**

EPA uses the results of OIG audits and evaluations to assess its progress toward its strategic goals and to make corrections and adjustments to improve program effectiveness and efficiency. The Agency is continuing to strengthen its audit management, addressing audit follow-up issues and working to complete corrective actions expeditiously and effectively to improve environmental results. During FY 2010, for example, OCFO continued the effort started

in FY 2009 of conducting reviews of national program and regional offices to promote sound audit management and increase Agency awareness of, accountability for, and completion of, outstanding unimplemented OIG recommendations.

In FY 2010, EPA was responsible for addressing OIG recommendations and tracking follow-up activities for 375 OIG reports. The Agency achieved final action (completing all corrective actions associated with the audit) on 150 audits, which included program evaluation/program performance, assistance agreement, and single audits. This total excludes Defense Contract Audit Agency audits issued after January 1, 2009; these audits are discussed in a separate section below. EPA's FY 2010 management activities for audits with associated dollars are represented in the following table:

Category	Disallowed Costs (Financial Audits)		Funds Put To Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of the period	63	\$ 65,382,172	76 *	\$ 103,749,706
B. Audits for which management decisions were made during the period (i) Management decisions with disallowed costs (22) and with better use funds (2) (ii) Management decisions with no disallowed costs (84) and with no better use funds (41)	106	\$ 12,886,331	43	\$ 7,148,965
C. Total audits pending final action during the period (A+B)	169	\$ 78,268,503	119	\$ 110,898,671
D. Final action taken during the period: (i) Recoveries a) Offsets b) Collection c) Value of Property d) Other (ii) Write-Offs (iii) Reinstated Through Grantee Appeal (iv) Value of recommendations completed (v) Value of recommendations management decided should/could not be completed	105	\$ 11,333,928 \$ 157,151 \$ 1,325,845 \$ 0 \$ 9,575,047 \$ 275,885 \$ 0	45	\$ 30,828,106      \$ 30,828,106 \$ 0
E. Audits without final action at end of period (C-D)	64	\$ 69,934,575	74	\$ 80,070,565

*\*This number includes all performance audits. Prior reports reflected only the number of performance audits with better use funds. We have changed our methodology for reporting the number of performance audits in order to be consistent with the way the financial audits are reported (total number of financial audits including those without disallowed costs).*

EPA's FY 2010 management activities for audits without final corrective action are summarized below:

- **Final Corrective Action Not Taken.** Of the 375 audits that EPA tracked, a total of 224 audits—which include program evaluation/program performance, assistance agreement, contracts, and single audits—were without final action and not yet fully resolved at the end

of FY 2010. (The 29 audits with management decisions under administrative appeal by the grantee are not included in the 224 total; see discussion below.)

- **Final Corrective Action Not Taken Beyond One Year.** Of the 224 audits, EPA officials had not completed final action on 58 (four of which involve multiple offices) within one year after the management decision (the point at which the OIG and the Action Official reach agreement on the corrective action plan). Because the issues to be addressed may be complex, Agency managers often require more than one year after management decisions are reached with the OIG to complete the agreed-on corrective actions. These audits are listed below by category—audits of program performance, single audits, and assistance agreements—and identified by title and responsible office. Additional details are available on EPA's website at [www.epa.gov/ocfo/financialperformancereports.htm](http://www.epa.gov/ocfo/financialperformancereports.htm).
  - *Audits of Program Performance.* Final action for program performance audits occurs when all corrective actions have been implemented, which may require more than one year when corrections are complex and lengthy. Some audits include recommendations requiring action by more than one office. EPA is tracking 41 audits in this category including one that was re-opened (four of which involve multiple offices):

**Office of Administrator**

2009-P00119+ Improved Management of Special Accounts Will Make More Funds Available

**Office of Administration and Resources Management**

9-P00087+ EPA Plans for Managing Counter Terrorism/Emergency Response Equipment and Protecting Critical Assets

**Office of Air and Radiation**

2005-P00010 Evaluation of CAA Title V Operating Permit Quality

2008-P00206 Voluntary Greenhouse Gas Reduction Programs Have Limited Potential

9-P00061 Improvements Needed to Validate Reported ENERGY STAR Benefits

9-P00087+ EPA Plans for Managing Counter Terrorism/Emergency Response Equipment and Protecting Critical Assets

**Office of the Chief Financial Officer**

2008-P00116 Superfund Expenditures at NPL TRI Sites

9-P00144 EPA Needs to Improve Internal Controls to Increase Cost Recovery

9-P00087+ EPA Plans for Managing Counter Terrorism/Emergency Response Equipment and Protecting Critical Assets

**Office of Enforcement & Compliance Assurance**

2001-P00013 State Enforcement Effectiveness – National Audit

2005-P00024 Priority Enforcement and Compliance Assurance Universe

2007-P00027 Benchmarking Other Organizations Statistically Valid Compliance Practices

2008-P00141 EPA Needs to Track Compliance w/SF Clean-up Requirements

2009-P00119 Improved Management of Superfund Special Accounts Will Make More Funds Available

9-P00092 EPA Can Improve Implementation of the Risk Management Program for Airborne Chemical Releases

**Office of Environmental Information**

2005-P00011 Remote Access Servers & Configurations Management

2007-P00007 Managing Contractor Systems and Reporting Incidents

2007-P00008 EPA Could Improve Controls over Mainframe Software

2007-P00030 EPA's Implementation of Electronic Data Collection

2007-P00055	Results of Technical Vulnerability Assessment: EPA's Research Triangle Park Campus
9-P00097	Results of Technical Network Vulnerability Assessment: EPA Headquarters

**Office of Grants and Debarment**

9-P00241	EPA Has Improved Efforts to Reduce Unliquidated Obligations in Superfund Cooperative Agreements
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**Office of International and Tribal Affairs**

2008-P00083	AA – Tribal Grants Results
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**Office of Chemical Safety and Pollution Prevention**

2006-P00009	Impact of Data Gaps on EPA's Implementation of FQPA
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**Office of Research and Development**

9-P00232	EPA's Office of Research and Development Could Better Use the Federal Managers' Financial Integrity
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**Office of Solid Waste and Emergency Response**

2006-P00013	SF Mandate: Program Efficiencies
2006-P00007+	More Information Is Needed on Toxaphene Degradation Products
2007-200003	Superfund Cooperative Agreement Obligations
2007-P00005	Review of RCRA Interim Status Permits
2007-P00002	Asbestos Cleanup in Libby Montana
2008-P00235	EPA Decisions to Delete SF Sites Should Undergo QA Review
8-P00265	EPA Should Continue Efforts to Reduce Unliquidated Obligations in Brownfields Pilot Grants
2009-P00119+	Improved Management of Special Accounts Will Make More Funds Available
9-P00092+	EPA Can Improve Implementation of the Risk Management Program for Airborne Chemical Releases
9-P00176	Regional Public Liaison Program Needs Greater Focus on Results and Customer Awareness

**Office of Water**

2002-P00012	Controlling and Abating Combined Sewer Overflows
2004-P00030	EPA's Pretreatment Program
2006-P00007+	More Information Is Needed On Toxaphene Degradation Products
2007-P00036	Planning for Future TMDL Reviews

**Region 1**

2009-P00119+	Improved Management of Special Accounts Will Make More Funds Available
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**Region 2**

2007-P00039	OIG Congressional Request-Ringwood Mines/Landfill Superfund
2007-P00016	Ringwood Mines/Landfill Superfund Site

**Region 3**

2007-P00031	Chesapeake Bay Land Use
2008-P00049	Chesapeake Bay Point Sources

**Region 6**

2009-P00029	SF Site Sampling
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**Region 9**

2008-P00196	Making Better Use of Stringfellow SF Special Accounts
9-P00131	Results of Hotline Complaint Review for California Superfund Site

- *Re-opened audits.* During a recent review, OIG identified one Program Performance audit for which Final Action was taken, although all corrective actions had not been completed. As a result, this audit has been reactivated:

**Office of Environmental Information**

2007-P-00017      EPA's Implementation of Database Security

+ *Indicates audits involving more than one office*

- *Single audits.* Final action for single audits occurs when non-monetary compliance actions are completed. Achieving final action may require more than a year if the findings are complex or the grantee does not have the resources to take corrective action. Single audits of nonprofit organizations, universities, and state and local governments are conducted. EPA is tracking completion of corrective action on 12 single audits for the period beginning October 1, 2010.

**Region 2**

2007-300139      State of New York, FY 2006

**Region 8**

2008-P00213      Oglala Sioux Single Audits – Corrective Actions Taken but Improvements Needed in Resolving Costs

**Region 9**

2006-300185      Guam Waterworks Authority FY 2004

**Region 10**

2002-300009      Iliama Village Council  
 2002-300042      Iliama Village Council  
 2003-300047      Stevens Village Council  
 2003-300117      Stevens Village Council  
 2003-300145      Circle Village Council  
 2004-300011      Northway Village Council  
 2006-300085      Stevens Village Council FY 2003  
 2006-300167      State of Alaska – FY 2003  
 2006-300168      State of Alaska – FY 2004

- *Audits of Assistance Agreements.* Reaching final action for assistance agreement audits may require more than one year, as the grantee may appeal, refuse to repay, or be placed on a repayment plan that spans several years. EPA is tracking five audits in this category:

**Region 3**

2001-100101      Center for Chesapeake Communities (CCC) Assist. Agreements

**Region 5**

2008-200039      Village of Laurelville, Ohio

**Region 6**

1998-200015      St. Bernard Parish

**Office of Grants and Debarment**

2004-400014      Consumer Federation of America Foundation- Costs Claimed  
 2007-400026      AA – International City County Management Association

- *Re-opened audits.* During a recent review, OIG identified one audit for which Final Action was taken, although all corrective actions had not been completed. As a result, this audit has been reactivated:

**Office of Environmental Information**

2007-P-00017      EPA's Implementation of Database Security

- *Audits Awaiting Decision on Appeal.* EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, EPA must not take action to collect the accounts receivable until the Agency issues a decision on the appeal. At the end of FY 2010, 29 audits were in administrative appeal. When these audits are out of appeal and all issues have been resolved, they will be captured in audit follow-up data reported in EPA's Agency Financial Report.

### **Defense Contract Audit Agency Audits**

Prior to January 1, 2009, Defense Contract Audit Agency (DCAA) audits of EPA contracts were requested by EPA's OIG and the results were included in the OIG's Semi-annual Report on Audits. EPA will continue to track and report on these DCAA audits along with other OIG audits until they are resolved and final action is taken; they are included in the summary above. Beginning January 1, 2009, however, EPA's Office of Acquisition Management assumed responsibility for requesting DCAA audits. Accordingly, these audits are now reported separately from OIG audits. Following is an overview of DCAA audit activity for the period, October 1, 2009 through September 30, 2010.

### **Summary of Audit Activities for the Period Ending September 30, 2010**

During this reporting period, EPA management was accountable for monitoring 46 DCAA audits. The Agency achieved final action on 20 audits. EPA's FY 2010 management activities for DCAA audits with associated dollars are represented in the following table:



Category	Disallowed Costs (Financial Audits)		Funds Put To Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of the period	0	\$ 0	0	\$ 0
B. Audits for which management decisions were made during the period (i) Management decisions with disallowed costs (15) (ii) Management decisions with no disallowed costs (6)	21	\$ 1,290,161	0	\$ 0
C. Total audits pending final action during the period (A+B)	21	\$ 1,290,161	0	\$ 0
D. Final action taken during the period: (i) Recoveries a) Offsets b) Collection c) Value of Property d) Other (ii) Write-Offs (iii) Reinstated Through Grantee Appeal (iv) Value of recommendations completed (v) Value of recommendations management decided should/could not be completed	20	\$ 558,396 \$ 110,437 \$ 0 \$ 0 \$ 0 \$ 156,950 \$ 0 \$ 291,009	0	\$ 0 \$ 0 \$ 0 \$ 0 \$ 0 \$ 0 \$ 0
E. Audits without final action at end of period (C-D)	1	\$ 0	0	\$ 0

**Final Corrective Action Not Taken on DCAA Audit Reports:** Of the 46 DCAA audits EPA tracked, a total of 26 audits were without final action and not yet fully resolved at the end of FY 2010.

**DCAA Audits Awaiting Decision on Appeal:** As of September 30, 2010, there were no management decisions in administrative appeal status.



# *EPA's FY 2010 Agency Financial Report*

## **Section II Financial Section**

This document is one chapter from the *Fiscal Year 2010 Agency Financial Report*, U.S. Environmental Protection Agency (EPA-190-R-10-003), published on November 15, 2010. This document is available at: [www.epa.gov/ocfo/financialperformancereports.htm](http://www.epa.gov/ocfo/financialperformancereports.htm). Printed copies of EPA's *FY 2010 Agency Financial Report* are available from EPA's National Service Center for Environmental Publications at 1-800-490-9198 or by e-mail at [nscep@bps-lmit.com](mailto:nscep@bps-lmit.com).



## Message from the Chief Financial Officer

EPA's Agency Financial Report (AFR) presents the performance and financial results achieved by the Agency during fiscal year (FY) 2010. It provides information on EPA's accomplishments and challenges in protecting human health and the environment, use of the financial resources entrusted to us, and progress in addressing key management challenges.

This year, the Agency faced new financial and management challenges as we responded to one of the worst environmental disasters in our country's history, the Deepwater Horizon BP oil spill in the Gulf of Mexico that began in April 2010. EPA's environmental experts immediately began monitoring the area, responding to potential public health and environmental concerns, and addressing the immediate and long-term environmental impacts of the spill. To ensure sound financial management and safeguard taxpayers dollars entrusted to EPA, I am pleased to report that we developed an Oil Spill Stewardship Plan for Agency resources supporting the response. This Plan builds on lessons learned from previous emergency responses, such as Hurricane Katrina and Hurricane Rita and mirrors similar efforts we undertook to manage financial resources under the American Reinvestment and Recovery Act of 2009. The Stewardship Plan stresses solid cost documentation to support current and future claims for reimbursement from responsible parties and maintains accountability to taxpayers for federal funds.

In addition to EPA's implementation of the Oil Spill Stewardship Plan, the Agency continues to manage its ongoing programs and resources effectively. For the 11th year in a row, EPA received a clean opinion on its audited financial statements.

EPA remains compliant with guidance from the Office of Management and Budget (OMB) and Recovery Act requirements in its financial reporting by submitting accurate and timely financial reports to OMB. We continually ensure transparency in our financial reporting to the public by posting data to the EPA Recovery Act website and submitting data to the Recovery and Accountability Transparency Board for posting to Recovery.gov, a government-wide website.

As required by OMB Circular A-123, we conducted an annual assessment of the effectiveness of internal controls over financial reporting. During the evaluation, the Agency reviewed 10 key financial processes and tested 296 key internal controls. Based on the results of this evaluation and the steps the Agency has taken to remedy its material weaknesses, the Administrator can provide reasonable assurance that EPA's internal controls over financial reporting are operating effectively.

To strengthen EPA's financial stewardship and management capabilities, the Agency designed a phase-based approach to modernize its IT financial systems. This OMB-approved approach includes enhancements designed to improve the way the Agency manages its business while ensuring accountability and financial controls. This approach makes good business sense, allowing us to focus our efforts and better plan future project management. We are integrating financial information into everyday decision-making to maximize the effective and efficient use of EPA's resources.

As Chief Financial Officer, I take seriously my responsibility to provide informed financial analysis to Agency leaders and the public. As we start the new fiscal year, we will maintain our commitment to financial excellence and ensure taxpayers' dollars are utilized effectively in fulfilling our mission to protect human health and the environment. I look forward to continuing our collaboration with our partners and stakeholders and implementing innovative, cross-cutting strategies to help meet the challenges ahead.

Barbara J. Bennett  
Chief Financial Officer  
November 15, 2010

# Principal Financial Statements

## Financial Statements

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2. Consolidated Statements of Net Cost
3. Consolidated Statements of Net Cost by Goal
4. Consolidating Statements of Changes in Net Position
5. Combined Statements of Budgetary Resources
6. Statements of Custodial Activity

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**Environmental Protection Agency**  
**Consolidated Balance Sheets**  
**As of September 30, 2010 and 2009**  
**(Dollars in Thousands)**

					FY 2010		FY 2009	
ASSETS								
Intragovernmental:								
Fund Balance With Treasury (Note 2)					\$	14,603,024	\$	15,557,917
Investments (Note 4)						7,243,613		6,879,948
Accounts Receivable, Net (Note 5)						45,698		39,362
Other (Note 6)						223,296		214,831
Total Intragovernmental					\$	22,115,631	\$	22,692,058
Cash and Other Monetary Assets (Note 3)						10		10
Accounts Receivable, Net (Note 5)						417,535		817,844
Loans Receivable, Net - Non-Federal (Note 7)						5,254		11,645
Property, Plant & Equipment, Net (Note 9)						915,121		852,488
Other (Note 6)						2,834		2,228
Total Assets					\$	23,456,385	\$	24,376,273
Stewardship PP& E (Note 11 )								
LIABILITIES								
Intragovernmental:								
Accounts Payable and Accrued Liabilities (Note 8)						51,325		76,054
Debt Due to Treasury (Note 10)						4,844		9,983
Custodial Liability (Note 12)						52,751		71,200
Other (Note 13)						132,286		140,645
Total Intragovernmental					\$	241,206	\$	297,882
Accounts Payable & Accrued Liabilities (Note 8)					\$	1,031,448	\$	865,764
Pensions & Other Actuarial Liabilities (Note 15)						44,938		44,122
Environmental Cleanup Costs (Note 23)						20,154		19,494
Cashout Advances, Superfund (Note 16)						636,673		572,412
Commitments & Contingencies (Note 18)						4,373		4,573
Payroll & Benefits Payable (Note 34)						264,975		250,617
Other (Note 13)						99,996		115,918
Total Liabilities					\$	2,343,763	\$	2,170,782
NET POSITION								
Unexpended Appropriations - Other Funds (Note 17)						13,342,784		14,536,347
Cumulative Results of Operations - Earmarked Funds (Note 19)						7,152,382		7,086,476
Cumulative Results of Operations - Other Funds						617,456		582,668
Total Net Position						21,112,622		22,205,491
Total Liabilities and Net Position					\$	23,456,385	\$	24,376,273

**The accompanying notes are an integral part of these financial statements.**



**Environmental Protection Agency  
Consolidated Statements of Net Cost  
For the Periods Ending September 30, 2010 and 2009  
(Dollars in Thousands)**

					<b>FY 2010</b>		<b>FY 2009</b>
<b>COSTS</b>							
	Gross Costs (Note 21)			\$	12,406,265	\$	8,920,963
	Less:						
	Earned Revenue (Notes 20, 21)				693,484		773,612
	<b>NET COST OF OPERATIONS (Note 21)</b>			<b>\$</b>	<b>11,712,781</b>	<b>\$</b>	<b>8,147,351</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency  
Consolidated Statements of Net Cost by Goal  
For the Period Ending September 30, 2010  
(Dollars in Thousands)**

	<b>Clean Air</b>	<b>Clean &amp; Safe Water</b>	<b>Land Preservation &amp; Restoration</b>	<b>Healthy Communities &amp; Ecosystems</b>	<b>Compliance &amp; Environmental Stewardship</b>
<b>Costs:</b>					
Intragovernmental	\$ 170,677	\$ 193,456	\$ 342,734	\$ 293,850	\$ 182,299
With the Public	1,048,124	6,197,330	2,096,211	1,265,653	615,931
Total Costs (Note 21)	1,218,801	6,390,786	2,438,945	1,559,503	798,230
Less:					
Earned Revenue, Federal	18,923	2,803	103,687	64,034	3,400
Earned Revenue, non Federal	5,906	2,524	446,569	44,144	1,494
Total Earned Revenue (Notes 20,21)	24,829	5,327	550,256	108,178	4,894
<b>NET COST OF OPERATIONS (Note 21)</b>	<b>\$ 1,193,972</b>	<b>\$ 6,385,459</b>	<b>\$ 1,888,689</b>	<b>\$ 1,451,325</b>	<b>\$ 793,336</b>
	<b>Consolidated Totals</b>				
<b>Costs:</b>					
Intragovernmental	\$ 1,183,016				
With the Public	\$ 11,223,249				
Total Costs (Note 21)	12,406,265				
Less:					
Earned Revenue, Federal	\$ 192,847				
Earned Revenue, non Federal	\$ 500,637				
Total Earned Revenue (Notes 20,21)	693,484				
<b>NET COST OF OPERATIONS (Note 21)</b>	<b>\$ 11,712,781</b>				

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency  
Consolidated Statements of Net Cost by Goal  
For the Period Ending September 30, 2009  
(Dollars in Thousands)**

	<u>Clean Air</u>	<u>Clean &amp; Safe Water</u>	<u>Land Preservation &amp; Restoration</u>	<u>Healthy Communities &amp; Ecosystems</u>	<u>Compliance &amp; Environmental Stewardship</u>
<b>Costs:</b>					
Intragovernmental	\$ 187,484	\$ 191,558	\$ 386,549	\$ 271,028	\$ 207,660
With the Public	874,787	3,236,903	1,821,301	1,134,155	609,538
Total Costs (Note 21)	<u>1,062,271</u>	<u>3,428,461</u>	<u>2,207,850</u>	<u>1,405,183</u>	<u>817,198</u>
Less:					
Earned Revenue, Federal	15,455	4,758	101,767	20,047	4,071
Earned Revenue, non Federal	<u>3,036</u>	<u>3,208</u>	<u>580,119</u>	<u>42,267</u>	<u>(1,116)</u>
Total Earned Revenue (Notes 20, 21)	<u>18,491</u>	<u>7,966</u>	<u>681,886</u>	<u>62,314</u>	<u>2,955</u>
<b>NET COST OF OPERATIONS (Note 21)</b>	<u><u>\$ 1,043,780</u></u>	<u><u>\$ 3,420,495</u></u>	<u><u>\$ 1,525,964</u></u>	<u><u>\$ 1,342,869</u></u>	<u><u>\$ 814,243</u></u>

	<u>Consolidated Totals</u>
<b>Costs:</b>	
Intragovernmental	\$ 1,244,279
With the Public	<u>\$ 7,676,684</u>
Total Costs	<u>8,920,963</u>
Less:	
Earned Revenue, Federal	\$ 146,098
Earned Revenue, non Federal	<u>\$ 627,514</u>
Total Earned Revenue (Notes 20, 21)	<u>773,612</u>
<b>NET COST OF OPERATIONS (Note 21)</b>	<u><u>\$ 8,147,351</u></u>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Consolidating Statements of Changes in Net Position**  
**For the Period Ending September 30, 2010**  
**(Dollars in Thousands)**

			<b>FY 2010 Earmarked Funds</b>	<b>FY 2010 All Other Funds</b>	<b>FY 2010 Consolidated Total</b>
<b>Cumulative Results of Operations:</b>					
<b>Net Position - Beginning of Period</b>			7,086,476	582,668	7,669,144
Beginning Balances, as Adjusted	\$		7,086,476	\$ 582,668	\$ 7,669,144
<b>Budgetary Financing Sources:</b>					
Appropriations Used			-	11,294,823	11,294,823
Nonexchange Revenue - Securities Investment (Note 36)			130,504	-	130,504
Nonexchange Revenue - Other (Note 36)			213,984	-	213,984
Transfers In/Out (Note 32)			(20,789)	33,859	13,070
Trust Fund Appropriations			1,280,570	(1,280,570)	-
Total Budgetary Financing Sources	\$		1,604,269	\$ 10,048,112	\$ 11,652,381
<b>Other Financing Sources (Non-Exchange)</b>					
Transfers In/Out (Note 32)			-	(546)	(546)
Imputed Financing Sources (Note 33)			27,022	134,618	161,640
Total Other Financing Sources	\$		27,022	\$ 134,072	\$ 161,094
Net Cost of Operations			(1,565,385)	(10,147,396)	(11,712,781)
Net Change			65,906	34,788	100,694
<b>Cumulative Results of Operations</b>	\$		<b>7,152,382</b>	<b>\$ 617,456</b>	<b>\$ 7,769,838</b>
			<b>FY 2010 Earmarked Funds</b>	<b>FY 2010 All Other Funds</b>	<b>FY 2010 Consolidated Total</b>
<b>Unexpended Appropriations:</b>					
<b>Net Position - Beginning of Period</b>			-	14,536,347	14,536,347
Beginning Balances, as Adjusted			-	14,536,347	14,536,347
<b>Budgetary Financing Sources:</b>					
Appropriations Received			-	10,182,421	10,182,421
Appropriations Transferred In/Out (Note 32)			-	(17,000)	(17,000)
Other Adjustments (Note 35)			-	(65,989)	(65,989)
Appropriations Used			-	(11,292,995)	(11,292,995)
Total Budgetary Financing Sources			-	(1,193,563)	(1,193,563)
<b>Total Unexpended Appropriations</b>			-	13,342,784	13,342,784
<b>TOTAL NET POSITION</b>	\$		<b>7,152,382</b>	<b>\$ 13,960,240</b>	<b>\$ 21,112,622</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Consolidating Statements of Changes in Net Position**  
**For the Periods Ending September 30, 2009**  
**(Dollars in Thousands)**

		<b>FY 2009 Earmarked Funds</b>	<b>FY 2009 All Other Funds</b>	<b>FY 2009 Consolidated Total</b>
<b>Cumulative Results of Operations:</b>				
<b>Net Position - Beginning of Period</b>		6,160,531	555,766	6,716,297
Beginning Balances, as Adjusted	\$	6,160,531	\$ 555,766	\$ 6,716,297
<b>Budgetary Financing Sources:</b>				
Appropriations Used		-	8,504,157	8,504,157
Nonexchange Revenue - Securities Investment (Note 36)		176,168	-	176,168
Nonexchange Revenue - Other (Note 36)		188,245	-	188,245
Transfers In/Out (Note 32)		(39,705)	57,392	17,687
Trust Fund Appropriations		1,747,911	(1,747,911)	-
Total Budgetary Financing Sources	\$	2,072,619	\$ 6,813,638	\$ 8,886,257
<b>Other Financing Sources (Non-Exchange)</b>				
Transfers In/Out (Note 32)		(84)	694	610
Imputed Financing Sources (Note 33)		28,975	184,356	213,331
Total Other Financing Sources	\$	28,891	\$ 185,050	\$ 213,941
Net Cost of Operations		(1,175,565)	(6,971,786)	(8,147,351)
Net Change		925,945	26,902	952,847
<b>Cumulative Results of Operations</b>	\$	<b>7,086,476</b>	\$ <b>582,668</b>	\$ <b>7,669,144</b>
<b>Unexpended Appropriations:</b>				
<b>Net Position - Beginning of Period</b>		-	8,674,710	8,674,710
Beginning Balances, as Adjusted	\$	-	\$ 8,674,710	\$ 8,674,710
<b>Budgetary Financing Sources:</b>				
Appropriations Received			14,406,298	14,406,298
Appropriations Transferred In/Out (Note 32)			(10,953)	(10,953)
Other Adjustments (Note 35)			(29,551)	(29,551)
Appropriations Used			(8,504,157)	(8,504,157)
Total Budgetary Financing Sources		-	5,861,637	5,861,637
<b>Total Unexpended Appropriations</b>		-	14,536,347	14,536,347
<b>TOTAL NET POSITION</b>	\$	<b>7,086,476</b>	\$ <b>15,119,015</b>	\$ <b>22,205,491</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Combined Statements of Budgetary Resources**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**

		<b>FY 2010</b>	<b>FY 2009</b>
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance, Brought Forward, October 1:	\$	3,703,022	\$ 3,551,880
Adjusted Subtotal		3,703,022	3,551,880
Recoveries of Prior Year Unpaid Obligations (Note 28)		277,771	220,329
Budgetary Authority:			
Appropriation		10,256,166	15,276,374
Borrowing Authority		52	5
Spending Authority from Offsetting Collections			
Earned:			
Collected		918,786	631,378
Change in Receivables from Federal Sources		(1,746)	2,884
Change in Unfilled Customer Orders:			
Advance Received		234,559	29,183
Without Advance from Federal Sources		(132,489)	(93,701)
Anticipated for Rest of Year, Without Advances		0	-
Previously Unavailable		-	-
Expenditure Transfers from Trust Funds		36,809	57,392
Total Spending Authority from Offsetting Collections		1,055,919	627,136
Nonexpenditure Transfers, Net, Anticipated and Actual (Note 32)		1,369,345	1,371,077
Temporarily Not Available Pursuant to Public Law (Note 28)		(11,800)	-
Permanently Not Available (Note 28)		(73,453)	(32,732)
<b>Total Budgetary Resources (Note 27)</b>	<b>\$</b>	<b>16,577,022</b>	<b>\$ 21,014,069</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$	11,260,452	\$ 16,740,272
Reimbursable		690,229	570,775
Total Obligations Incurred (Note 27)		11,950,681	17,311,047
Unobligated Balances:			
Apportioned (Note 29)		4,430,813	3,440,829
Exempt from Apportionment		-	-
Total Unobligated Balances		4,430,813	3,440,829
Unobligated Balances Not Available (Note 29)		195,528	262,193
<b>Total Status of Budgetary Resources</b>	<b>\$</b>	<b>16,577,022</b>	<b>\$ 21,014,069</b>

**The accompanying notes are an integral part of these financial statements.**



**Environmental Protection Agency**  
**Combined Statements of Budgetary Resources**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**

		<b>FY 2010</b>	<b>FY 2009</b>
<b>CHANGE IN OBLIGATED BALANCE</b>			
Obligated Balance, Net:			
Unpaid Obligations, Brought Forward, October 1	\$	15,788,389	\$ 9,368,094
Adjusted Total		15,788,389	9,368,094
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1		(573,824)	(666,246)
Total Unpaid Obligated Balance, Net		15,214,565	8,701,848
Obligations Incurred, Net (Note 27)		11,950,681	17,311,047
Less: Gross Outlays (Note 27)		(13,588,391)	(10,670,422)
Obligated Balance Transferred, Net:			
Actual Transfers, Unpaid Obligations		-	-
Actual Transfers, Uncollected Customer Payments from Federal		-	-
Total Unpaid Obligated Balance Transferred, Net		-	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual (Note 28)		(277,771)	(220,329)
Change in Uncollected Customer Payments from Federal Sources		133,869	92,421
Total, Change in Obligated Balance		13,432,953	15,214,565
Obligated Balance, Net, End of Period:			
Unpaid Obligations		13,872,909	15,788,389
Less: Uncollected Customer Payments from Federal Sources		(439,956)	(573,824)
Total, Unpaid Obligated Balance, Net, End of Period	\$	13,432,953	\$ 15,214,565
<b>NET OUTLAYS</b>			
Net Outlays:			
Gross Outlays (Note 27)	\$	13,588,391	\$ 10,670,422
Less: Offsetting Collections (Note 27)		(1,189,788)	(719,558)
Less: Distributed Offsetting Receipts (Notes 27 and 31)		(1,402,960)	(1,884,134)
<b>Total, Net Outlays</b>	\$	<b>10,995,643</b>	\$ <b>8,066,730</b>

**The accompanying notes are an integral part of these financial statements.**

									FY 2010		FY 2009
<b>Revenue Activity:</b>											
Sources of Cash Collections:											
	Fines and Penalties					\$	88,318	\$	101,613		
	Other						18,072		(14,079)		
	Total Cash Collections					\$	106,390	\$	87,534		
	Accrual Adjustment						(16,763)		16,390		
Total Custodial Revenue (Note 26)						\$	89,627	\$	103,924		
<b>Disposition of Collections:</b>											
	Transferred to Others (General Fund)					\$	105,684	\$	87,520		
	Increases/Decreases in Amounts to be Transferred						(16,057)		16,404		
Total Disposition of Collections						\$	89,627	\$	103,924		
<b>Net Custodial Revenue Activity (Note 26)</b>						\$	-	\$	-		

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**Environmental Protection Agency  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2010 and 2009  
(Dollars in Thousands)**

<b>Note 1. Summary of Significant Accounting Policies</b>
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**A. Reporting Entities**

The U. S. Environmental Protection Agency (EPA or the Agency) was created in 1970 by executive reorganization from various components of other federal agencies to better marshal and coordinate federal pollution control efforts. The Agency is generally organized around the media and substances it regulates—air, water, land, hazardous waste, pesticides, and toxic substances.

The FY 2010 financial statements are presented on a consolidated basis for the Balance Sheet, Statements of Net Cost, Changes in Net Position and Custodial Activity and a combined basis for the Statement of Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

**B. Basis of Presentation**

These accompanying financial statements have been prepared to report the financial position and results of operations of EPA as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the financial system and records of the Agency in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and EPA accounting policies, which are summarized in this note. The Statement of Net Cost has been prepared with cost segregated by the Agency's strategic goals.

**1. General Fund Appropriations (Treasury Fund Groups 0000–3999)**

- a. State and Tribal Assistance Grants (STAG) Appropriation:** The STAG appropriation, Treasury fund group 0103, provides funds for environmental programs and infrastructure assistance including capitalization grants for state revolving funds and performance partnership grants. Environmental programs and infrastructure supported are: Clean and Safe Water; capitalization grants for the Drinking Water State Revolving Funds; Clean Air; direct grants for Water and Wastewater Infrastructure needs; partnership grants to meet Health Standards, Protect Watersheds, Decrease Wetland Loss, and Address Agricultural and Urban Runoff and Stormwater; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; and Reduction of Global and Cross-Border Environmental Risks.
- b. Science and Technology (S&T) Appropriation:** The S&T appropriation, Treasury fund group 0107, finances salaries, travel, science, technology, research and development activities, including laboratory supplies, certain operating expenses, grants, contracts, intergovernmental agreements, and

purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 2010, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Environmental scientific and technological activities and programs include Clean Air; Clean and Safe Water; Americans Right to Know About Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food.

- c. *Environmental Programs and Management (EPM) Appropriation:*** The EPM appropriation, Treasury fund group 0108, includes funds for salaries; travel; contracts; grants; and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the Agency's operating programs. Areas supported from this appropriation include: Clean Air, Clean and Safe Water, Land Preservation and Restoration, Healthy Communities and Ecosystems, and Compliance and Environmental Stewardship.
- d. *Buildings and Facilities Appropriation (B&F):*** The B&F appropriation, Treasury fund group 0110, provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by EPA.
- e. *Office of Inspector General (OIG) Appropriation:*** The OIG appropriation, Treasury fund group 0112, provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and mismanagement. Additional funds for audit and investigative activities associated with the Superfund and the LUST Trust Funds are appropriated under those Trust Fund accounts and transferred to the Office of Inspector General account. The audit function provides contract, internal controls and performance, and financial and grant audit services. The appropriation includes expenses incurred and reimbursed from the appropriated trust funds accounted for under Treasury fund group 8145 and 8153.
- f. *Payments to the Hazardous Substance Superfund Appropriation:*** The Payment to the Hazardous Substance Superfund appropriation, Treasury fund group 0250, authorizes appropriations from the General Fund of the Treasury to finance activities conducted through the Hazardous Substance Superfund Program.
- g. *Payments to Leaking Underground Storage Tank Appropriation:*** The Payment to the Leaking Underground Storage Tank appropriation, Treasury fund group 0251, authorizes appropriations from the General Fund of the Treasury to finance activities conducted through the Leaking Underground Storage Tank Program.
- h. *Asbestos Loan Program:*** The Asbestos Loan Program is accounted for under Treasury fund group 0118, Program Account, for interest subsidy and administrative support; under Treasury fund group 4322, Financing Account, for loan disbursements, loans receivable and loan collections on post-FY 1991 loans.

The Asbestos Loan Program was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. The Program Account 0118 disburses the subsidy to the Financing Fund for increases in the subsidy. The Financing Account 4322 receives the subsidy payment, borrows from Treasury and collects the asbestos loans.

- i. **Allocations and Appropriations Transferred to the Agency:*** EPA receives allocations or appropriations transferred from other federal agencies.
- j. **Treasury Clearing Accounts:*** The EPA Department of the Treasury Clearing Accounts include: 1) the Budgetary Suspense Account, 2) the Unavailable Check Cancellations and Overpayments Account, and 3) the Undistributed Intra-agency Payments and Collections (IPAC) Account. These are accounted for under Treasury fund groups 3875, 3880, and 3885, respectively.
- k. **General Fund Receipt Accounts:*** General Fund Receipt Accounts include: Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Downward Re-estimates of Subsidies; Fees and Other Charges for Administrative and Professional Services; Miscellaneous Recoveries and Refunds; and Proceeds of Sales, Personal Property. These accounts are accounted for under Treasury fund groups 0895, 1099, 1435, 1499, 2753.003, 3200, 3220 and 3845, respectively.
- l. **Allocation of Budget Authority:*** EPA is an allocation budget transfer parent to five federal agencies: Department of Interior, Department of Labor, Centers for Disease Control, Department of Commerce, and Federal Emergency Management Agency. EPA has an Interagency Agreement or a Memorandum of Understanding (MOU) with each child agency to provide an annual work plan and quarterly progress report containing an accounting of funds obligated in each budget category within 15 days after the end of each quarter. This allows EPA to properly report the financial activity. The allocation transfers are reported in the net cost of operations, changes in net position, balance sheet and budgetary resources where activity is being performed by the receiving federal entity. In addition, EPA receives allocation transfers, as a child, from the Bureau of Land Management.

## **2. Revolving Funds (Treasury Fund Group 4000–4999)**

- a. **Reregistration and Expedited Processing Fund:*** The Revolving Fund, Treasury fund group 4310, was authorized by the FIFRA of 1972, as amended by the FIFRA Amendments of 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide Maintenance fees are paid by industry to offset the costs of pesticide re-registration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.
- b. **Tolerance Revolving Fund:*** The Tolerance Revolving Fund, Treasury fund group 4311, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2,

1997 were accounted for under this fund. Presently these fees are being deposited in the FIFRA fund (see above).

- c. *Asbestos Loan Program:*** The Asbestos Loan Program is accounted for under Treasury fund group 4322, Financing Account for loan disbursements, loans receivable and loan collections on post-FY 1991 loans. Refer to General Fund Appropriations paragraph h. for details.
- d. *Working Capital Fund (WCF):*** The WCF, Treasury fund group, 4565, includes four activities: computer support services, financial system services, employee relocation services, and postage. The WCF derives revenue from these activities based upon a fee for services. The WCF's customers currently consist primarily of EPA program offices, with a small portion from other federal agencies. Accordingly, those revenues generated by the WCF from services provided to EPA program offices and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation of the financial statements.

### **3. Special Funds (Treasury Fund Group 5000–5999)**

***Environmental Services Receipt Account:*** The Environmental Services Receipt Account authorized by a 1990 act, "To amend the Clean Air Act (P.L. 101-549)," Treasury fund group 5295, was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund can only be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts if authorized by Congress in the Agency's appropriations bill.

***Exxon Valdez Settlement Fund:*** The Exxon Valdez Settlement Fund authorized by a 1992 act, "Making appropriations for the Department of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions corporations, and offices for the fiscal year ending September 30, 1993 (P.L. 102-389)," Treasury fund group 5297, has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

***Pesticide Registration Fund:*** The Pesticide Registration Fund authorized by the "Consolidated Appropriations Act, 2004 (P.L. 108-199)," Treasury fund group 5374, was authorized for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Amendments of 1988, are to be paid by industry and deposited into this fund group.

### **4. Deposit Funds (Treasury Fund Group 6000–6999)**

Deposits include: Fees for Ocean Dumping; Nonconformance Penalties; Clean Air Allowance Auction and Sale; Advances Without Orders; Suspense and Payroll Deposits for Savings Bonds; State, City Income Taxes Withheld; and Other Federal



Payroll Withholding Allotments. These funds are accounted for under Treasury fund groups 6264, 6265, 6266, 6500, 6050, 6275, and 6276, respectively.

## 5. Trust Funds (Treasury Fund Group 8000–8999)

- a. *Superfund Trust Fund:*** In 1980, the Superfund Trust Fund, Treasury fund group 8145, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. EPA allocates funds from its appropriation to other federal agencies to carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by EPA, private parties, or other federal agencies. The Superfund Trust Fund includes Treasury's collections and investment activity.
- b. *Leaking Underground Storage Tank (LUST) Trust Fund:*** The LUST Trust Fund, Treasury fund group 8153, was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act. The program is financed by a one cent a gallon tax on motor fuels, which will expire in 2011.
- c. *Oil Spill Response Trust Fund:*** The Oil Spill Response Trust Fund, Treasury fund group 8221, was authorized by the Oil Pollution Act of 1990 (OPA). Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure (SPCC) requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for oil spill cleanup actions is provided through the U.S. Coast Guard under the Oil Spill Liability Trust Fund and reimbursable funding from other federal agencies.
- d. *Miscellaneous Contributed Funds Trust Fund:*** The Miscellaneous Contributed Funds Trust Fund authorized in the Federal Water Pollution Control Act (Clean Water Act) as amended by (P.L. 92-500, The Federal Water Pollution Control Act Amendments of 1972), Treasury fund group 8741, includes gifts for pollution control programs that are usually designated for a specific use by donors and/or

deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner.

## **C. Budgets and Budgetary Accounting**

### **1. General Funds**

Congress adopts an annual appropriation for STAG, B&F, and for Payments to the Hazardous Substance Superfund to be available until expended, as well as annual appropriations for S&T, EPM and for the OIG to be available for two fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed from a combination of two sources, one for the long-term costs of the loans and another for the remaining nonsubsidized portion of the loans. Congress adopted a one-year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long-term cost of the Asbestos loans. The long-term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long-term cost is financed under permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur in subsequent years after the loans were disbursed.

Funds transferred from other federal agencies are processed as non-expenditure transfers. As the Agency disburses the obligated amounts, the balance of funding available to the appropriation is reduced at Treasury.

Clearing accounts and receipt accounts receive no appropriated funds. Amounts are recorded to the clearing accounts pending further disposition. Amounts recorded to the receipt accounts capture amounts collected for or payable to the Treasury General Fund.

### **2. Revolving Funds**

Funding of the FIFRA and Pesticide Registration Funds is provided by fees collected from industry to offset costs incurred by the Agency in carrying out these programs. Each year the Agency submits an apportionment request to OMB based on the anticipated collections of industry fees.

Funding of the WCF is provided by fees collected from other Agency appropriations and other federal agencies to offset costs incurred for providing Agency administrative support for computer and telecommunication services, financial system services, employee relocation services, and postage.

### **3. Special Funds**

The Environmental Services Receipt Account obtains fees associated with environmental programs.

Exxon Valdez uses funding collected from reimbursement from the Exxon Valdez settlement.

#### **4. Deposit Funds**

Deposit accounts receive no appropriated funds. Amounts are recorded to the deposit accounts pending further disposition. These are not EPA's funds.

#### **5. Trust Funds**

Congress adopts an annual appropriation amount for the Superfund, LUST, and Oil Spill Response Trust Funds to remain available until expended. A transfer account for the Superfund and LUST Trust Funds has been established for the purpose of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, it draws down monies from the Superfund and LUST Trust Funds at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Principal Fund of the Oil Spill Liability Trust Fund when Congress adopts the appropriation amount.

### **D. Basis of Accounting**

Generally Accepted Accounting Principles (GAAP) for Federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the federal government. The financial statements are prepared in accordance with GAAP for federal entities.

Transactions are recorded on an accrual accounting basis and on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

### **E. Revenues and Other Financing Sources**

The following EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenues and Other Financing Sources." The Superfund program receives most of its funding through appropriations, which may be used within specific statutory limits for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs) under CERCLA Section 122(b)(3), placed in special accounts. Cost recovery settlements that are not placed in special accounts continue to be deposited in the Trust Fund.

Most of the other funds receive funding needed to support programs through appropriations, which may be used within statutory limits for operating and capital expenditures. However, under Credit Reform provisions, the Asbestos Loan Program receives funding to support the subsidy cost of loans through appropriations, which may be used within statutory limits. The Asbestos Direct Loan Financing fund 4322, an off-

budget fund, receives additional funding to support the outstanding loans through collections from the Program fund 0118 for the subsidized portion of the loan.

The FIFRA and Pesticide Registration funds receive funding through fees collected for services provided and interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses upon consolidation of the Agency's financial statements. The Exxon Valdez Settlement Fund receives funding through reimbursements.

Appropriated funds are recognized as Other Financing Sources expended when goods and services have been rendered without regard to payment of cash. Other revenues are recognized when earned (i.e., when services have been rendered).

#### **F. Funds with the Treasury**

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The major funds maintained with Treasury are Appropriated Funds, Revolving Funds, Trust Funds, Special Funds, Deposit Funds, and Clearing Accounts. These funds have balances available to pay current liabilities and finance authorized obligations, as applicable.

#### **G. Investments in U.S. Government Securities**

Investments in U.S. government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity (see Note 4).

#### **H. Notes Receivable**

The Agency records notes receivable at their face value and any accrued interest as of the date of receipt.

#### **I. Marketable Securities**

The Agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury and reported at their cost value in the financial statements until sold (see Note 4).

## **J. Accounts Receivable and Interest Receivable**

The majority of receivables for non-Superfund funds represent penalties and interest receivable for general fund receipt accounts, unbilled intragovernmental reimbursements receivable, allocations receivable from Superfund (eliminated in consolidated totals), and refunds receivable for the STAG appropriation.

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA, as amended by SARA. As there are no assurances that these funds will be recovered, cost recovery expenditures are expensed when incurred (see Note 5).

The Agency records accounts receivable from PRPs for Superfund site response costs when a consent decree, judgment, administrative order, or settlement is entered. These agreements are generally negotiated after at least some, but not necessarily all, of the site response costs have been incurred. It is the Agency's position that until a consent decree or other form of settlement is obtained, the amount recoverable should not be recorded.

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under SSCs, cost sharing arrangements may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10 or 50 percent of site remedial action costs, depending on who has the lead for the site (i.e., publicly or privately owned). States may pay the full amount of their share in advance or incrementally throughout the remedial action process.

## **K. Advances and Prepayments**

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred.

## **L. Loans Receivable**

Loans are accounted for as receivables after funds have been disbursed. Loans receivable resulting from obligations on or before September 30, 1991, are reduced by the allowance for uncollectible loans. Loans receivable resulting from loans obligated on or after October 1, 1991, are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans.

## **M. Appropriated Amounts Held by Treasury**

For the Superfund and LUST Trust Funds and for amounts appropriated from the Superfund Trust Fund to the OIG, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury.

## **N. Property, Plant, and Equipment**

EPA accounts for its personal and real property accounting records in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment." For EPA-held property, the Fixed Assets Subsystem (FAS) automatically generates depreciation entries monthly based on acquisition dates.

A purchase of EPA-held or contract personal property is capitalized if it is valued at \$25,000 or more and has an estimated useful life of at least two years. For contractor held property, depreciation is taken on a modified straight-line basis over a period of six years, depreciating 10 percent the first and sixth year and 20 percent in years two through five. Detailed records are maintained and accounted for in contractor systems, not in FAS for contractor held property. Acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from two to 15 years.

Personal property also consists of capital leases. To be defined as a capital lease, it must, at its inception, have a lease term of two or more years and the lower of the fair or present value of the minimum lease payments must be \$75,000 or more. Capital leases may also contain real property (therefore considered in the real property category as well), but these need to meet an \$85,000 capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership to EPA, contains a bargain purchase option, the lease term is equal to 75 percent or more of the estimated service life, or the present value of the lease and other minimum lease payments equal or exceed 90 percent of the fair value.

Superfund contract property used as part of the remedy for site-specific response actions is capitalized in accordance with the Agency's capitalization threshold. This property is part of the remedy at the site and eventually becomes part of the site itself. Once the response action has been completed and the remedy implemented, EPA retains control of the property (e.g., pump and treat facility) for 10 years or less and transfers its interest in the facility to the respective state for mandatory operation and maintenance—usually 20 years or more. Consistent with EPA's 10-year retention period, depreciation for this property is based on a 10-year life. However, if any property is transferred to a state in a year or less, this property is charged to expense. If any property is sold prior to EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations.

An exception to the accounting of contract property includes equipment purchased by the WCF. This property is retained in FAS and depreciated utilizing the straight-line method based on the asset's acquisition date and useful life.

Real property consists of land, buildings, capital and leasehold improvements, and capital leases. Real property, other than land, is capitalized when the value is \$85,000 or more. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value if purchased prior to FY 1997. Real property purchased during and after FY 1997 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and

improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed when incurred.

Software for the WCF—a revenue generating activity—is capitalized if the purchase price is \$100,000 or more with an estimated useful life of two years or more. All other funds capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, “Accounting for Internal Use Software.” Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset’s useful life ranging from two to 10 years.

#### **O. Liabilities**

Liabilities represent the amount of monies or other resources that are more likely than not to be paid by the Agency as the result of an Agency transaction or event that has already occurred and can be reasonably estimated. However, no liability can be paid by the Agency without an appropriation or other collections. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities, and there is no certainty that the appropriations will be enacted. Liabilities of the Agency arising from anything other than contracts can be abrogated by the Government acting in its sovereign capacity.

#### **P. Borrowing Payable to the Treasury**

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans described in parts B and C of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

#### **Q. Interest Payable to Treasury**

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt.

#### **R. Accrued Unfunded Annual Leave**

Annual, sick, and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in Note 34 as a component of “Payroll and Benefits Payable.”



## **S. Retirement Plan**

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect, pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

With the issuance of SFFAS No. 5, "Accounting for Liabilities of the Federal Government," accounting and reporting standards were established for liabilities relating to the federal employee benefit programs (Retirement, Health Benefits, and Life Insurance). SFFAS No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management (OPM), as administrator of the CSRS and FERS, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide federal agencies with the actuarial cost factors to compute the liability for each program.

## **T. Prior Period Adjustments and Restatements**

Prior period adjustments, if any, are made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." Specifically, prior period adjustments will only be made for material prior period errors to: 1) the current period financial statements and 2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison.

## **U. Recovery Act Funds**

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Act was enacted to create jobs in the United States, encourage technical advances, assist in modernizing the nation's infrastructure, and enhance energy independence. EPA was charged with the task of distributing funds to invest in various projects aimed at creating advances in science, health, and environmental protection that will provide long-term economic benefits.

EPA manages almost \$7.22 billion in Recovery Act-funded projects and programs that will help achieve these goals, offer resources to help other "green" agencies, and administer environmental laws that will govern Recovery activities. As of September 30, 2010, EPA has paid out \$3.71 billion.

EPA, in collaboration with states, tribes, local governments, territories and other partners, is administering the funds it received under the Recovery Act through four appropriations. The funds include:

State and Tribal Assistance Grants (STAG), which in turn include: \$4 billion for assistance to help communities with water quality and wastewater infrastructure needs and \$2 billion for drinking water infrastructure needs (Water SRF programs and Water Quality Planning program); \$100 million for competitive grants to evaluate and clean up former industrial and commercial sites (Brownfields program); \$300 million for grants and loans to help regional, state and local governments, tribal agencies, and nonprofit organizations with projects that reduce diesel emissions (Clean Diesel programs); \$600 million for the cleanup of hazardous sites (Superfund program); \$200 million for the cleanup of petroleum leaks from underground storage tanks (LUST Fund program); and \$20 million for audits and investigations conducted by the Inspector General (IG).

EPA has committed to focusing on the following areas: Clean Diesel Emissions, Superfund Hazardous Waste Cleanup, Cleaner Underground Storage Tank Sites, Revitalized Neighborhoods from Brownfields, and Cleaner Water and Drinking Water Infrastructures.

The vast majority of the contracts awarded under the Recovery Act will be entered into using competitive contracts. EPA is committed fully to ensuring transparency and accountability throughout the Agency in spending Recovery Act funds in accordance with OMB guidance.

EPA has set up a Stimulus Steering Committee that meets to review and report on the status of the distribution of the Recovery Act funds to ensure transparency and accuracy. EPA has also developed a Stewardship Plan, which is an Agency-level risk mitigation plan that sets out the Agency's Recovery Act risk assessment, internal controls, and monitoring activities. The Stewardship Plan is divided into seven functional areas: grants, interagency agreements, contracts, human capital/payroll, budget execution, performance reporting, and financial reporting. The Stewardship Plan was developed around Government Accountability Office (GAO) standards for internal control. Under each functional area, risks are assessed and related control, communication, and monitoring activities are identified for each impacted program. The Plan is a dynamic document and will be updated as revised OMB guidance is issued or additional risks are uncovered.

EPA has the three-year EPM treasury symbol 689/10108 that is under the Recovery Act. EPA's two-year EPM treasury symbol 689/00108 is a "regular" program. EPA's other Recovery Act programs are the following: Office of Inspector General, treasury symbol 689/20113; State and Tribal Assistance Grants, treasury symbol 689/00102; Payment to the Superfund, treasury symbol 689/00249; Superfund, treasury symbol 689/08195; and Leaking Underground Storage Tank, treasury symbol 689/08196.

## **V. Deepwater Horizon BP Oil Spill**

On April 20, 2010 the Deepwater Horizon drilling rig exploded, releasing large volumes of oil into the Gulf of Mexico. As a responsible party, BP is required by the 1990 Oil Pollution Act to fund the cost of the response and cleanup operations. EPA has been working in conjunction with the Coast Guard, who was named the lead on the effort to fund the immediate oil spill cleanup.

## W. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### Note 2. Fund Balance with Treasury (FBWT)

Fund Balance with Treasury as of September 30, 2010 and 2009, consists of the following:

	<u>FY 2010</u>			<u>FY 2009</u>		
	Entity Assets	Non-Entity Assets	Total	Entity Assets	Non-Entity Assets	Total
<b>Trust Funds:</b>						
Superfund	\$ 106,247	\$ -	\$ 106,247	\$ 62,631	\$ -	\$ 62,631
LUST	55,132	-	55,132	25,169	-	25,169
Oil Spill & Misc.	9,644	-	9,644	2,441	-	2,441
<b>Revolving Funds:</b>						
FIFRA/Tolerance	4,204	-	4,204	7,153	-	7,153
Working Capital	80,485	-	80,485	80,293	-	80,293
Cr. Reform Finan.	390	-	390	390	-	390
<b>Appropriated</b>	14,049,511	-	14,049,511	15,122,481	-	15,122,481
<b>Other Fund Types</b>	289,149	8,262	297,411	247,877	9,482	257,359
<b>Total</b>	<u>\$ 14,594,762</u>	<u>\$ 8,262</u>	<u>\$ 14,603,024</u>	<u>\$ 15,548,435</u>	<u>\$ 9,482</u>	<u>\$ 15,557,917</u>

Entity fund balances, except for special fund receipt accounts, are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below). Entity Assets for Other Fund Types consist of special purpose funds and special fund receipt accounts, such as the Pesticide Registration funds and the Environmental Services receipt account. The Non-Entity Assets for Other Fund Types consist of clearing accounts and deposit funds, which are either awaiting documentation for the determination of proper disposition or being held by EPA for other entities.

#### Status of Fund Balances:

	<u>FY 2010</u>	<u>FY 2009</u>
Unobligated Amounts in Fund Balance:		
Available for Obligation	\$ 4,430,813	\$ 3,440,831
Unavailable for Obligation	195,529	262,971
Net Receivables from Invested Balances	(3,736,818)	(3,583,119)
Balances in Treasury Trust Fund (Note 38)	(1,115)	(18,334)
Obligated Balance not yet Disbursed	13,432,954	15,214,555
Non-Budgetary FBWT	281,661	241,013
<b>Totals</b>	<u>\$ 14,603,024</u>	<u>\$ 15,557,917</u>

The funds available for obligation may be apportioned by OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2010 and FY 2009 no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury.

### **Note 3. Cash and Other Monetary Assets**

As of September 30, 2010 and 2009, the balance in the imprest fund was \$10,000.

### **Note 4. Investments**

As of September 30, 2010 and 2009 investments related to Superfund and LUST consist of the following:

		Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
<b>Intragovernmental Securities:</b>						
Non-Marketable	FY 2010	\$ 7,079,053	\$ (139,302)	\$ 25,258	\$ 7,243,613	\$ 7,243,613
Non-Marketable	FY 2009	\$ 6,641,708	\$ (195,777)	\$ 42,463	\$ 6,879,948	\$ 6,879,948

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RPs). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable (see Note 6). All investments in Treasury securities are earmarked funds (see Note 19).

The federal government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general government purposes. Treasury securities are issued to EPA as evidence of its receipts. Treasury securities are an asset to EPA and a liability to the U.S. Treasury. Because EPA and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the government as a whole. For this reason, they do not represent an asset or liability in the U.S. government-wide financial statements.

Treasury securities provide EPA with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When EPA requires redemption of these securities to make expenditures, the government finances those expenditures out of accumulated cash balances by raising taxes or other receipts, borrowing from the public or repaying less debt, or curtailing other expenditures. This is the same way that the government finances all other expenditures.

**Note 5. Accounts Receivable, Net**

The Accounts Receivable as of September 30, 2010 and 2009 consist of the following:

		<b><u>FY 2010</u></b>	<b><u>FY 2009</u></b>
<b>Intragovernmental:</b>			
Accounts & Interest Receivable	\$	<b>45,698</b>	\$ <b>39,362</b>
<b>Total</b>	\$	<b>45,698</b>	\$ <b>39,362</b>
<b>Non-Federal:</b>			
Unbilled Accounts Receivable	\$	143,444	\$ 137,593
Accounts & Interest Receivable		1,958,981	1,376,831
Less: Allowance for Uncollectibles		(1,684,890)	(696,580)
<b>Total</b>	\$	<b>417,535</b>	\$ <b>817,844</b>

The Allowance for Uncollectible Accounts is determined both on a specific identification basis, as a result of a case-by-case review of receivables, and on a percentage basis for receivables not specifically identified.

**Note 6. Other Assets**

Other Assets as of September 30, 2010 and 2009 consist of the following:

		<b><u>FY 2010</u></b>	<b><u>FY 2009</u></b>
<b>Intragovernmental:</b>			
Advances to Federal Agencies	\$	223,165	\$ 214,654
Advances for Postage		131	177
<b>Total</b>	\$	<b>223,296</b>	\$ <b>214,831</b>
<b>Non-Federal:</b>			
Travel Advances	\$	432	\$ (183)
Letter of Credit Advances		9	8
Other Advances		2,105	2,146
Operating Materials and Supplies		149	147
Inventory for Sale		139	110
<b>Total</b>	\$	<b>2,834</b>	\$ <b>2,228</b>

**Note 7. Loans Receivable, Net**

Loans Receivable consist of Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 and are presented net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. The amounts as of September 30, 2010 and 2009 are as follows:

			<b>FY 2010</b>			<b>FY 2009</b>	
		<b>Loans Receivable, Gross</b>	<b>Allowance*</b>	<b>Value of Assets Related to Direct Loans</b>		<b>Loans Receivable, Gross</b>	<b>Value of Assets Related to Direct Loans</b>
Direct Loans Obligated Prior to FY 1992	\$	545	\$ -	\$ 545	\$	2,003	\$ 2,003
Direct Loans Obligated After FY 1991		4,931	(222)	4,709		10,590	(948) 9,642
<b>Total</b>	<b>\$</b>	<b>5,476</b>	<b>\$ (222)</b>	<b>\$ 5,254</b>	<b>\$</b>	<b>12,593</b>	<b>\$ (948) 11,645</b>

\* Allowance for Pre-Credit Reform loans (prior to FY 1992) is the Allowance for Estimated Uncollectible Loans, and the Allowance for Post Credit Reform Loans (after FY 1991) is the Allowance for Subsidy Cost (present value).

During FY 2008, EPA made a payment within the U.S. Treasury for the Asbestos Loan Program based on an upward re-estimate of \$33,000 for increased loan financing costs. It was believed that the payment only consisted of “interest” costs and, as such, an automatic apportionment, per OMB Circular A-11, Section 120.83, was deemed appropriate. However, approximately one-third (\$12,000) of the \$33,000 re-estimate was for increased “subsidy” costs, which required an approved apportionment by OMB before any payment could be made. Therefore, the payment resulted in a minor technical Antideficiency Act (ADA) violation. On October 13, 2009, EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the 1) President, 2) President of the Senate, 3) Speaker of the House of Representatives, 4) Comptroller General, and 5) Director of OMB.

Subsidy Expenses for Credit Reform Loans (reported on a cash basis):

		<b>Interest Rate Re-estimate</b>		<b>Technical Re-estimate</b>		<b>Total</b>
Upward Subsidy Reestimate – FY 2010	\$	5	\$	2	\$	7
Downward Subsidy Reestimate - FY 2010		(35)		(16)		(51)
<b>FY 2010 Totals</b>	<b>\$</b>	<b>(30)</b>	<b>\$</b>	<b>(14)</b>	<b>\$</b>	<b>(44)</b>
Upward Subsidy Reestimate – FY 2009	\$	-	\$	-	\$	-
Downward Subsidy Reestimate - FY 2009		(3)		(2)		(5)
<b>FY 2009 Totals</b>	<b>\$</b>	<b>(3)</b>	<b>\$</b>	<b>(2)</b>	<b>\$</b>	<b>(5)</b>

Schedule for Reconciling Subsidy Cost Allowance Balances					
(Post-1991 Direct Loans)					
				<b>FY 2010</b>	<b>FY 2009</b>
Beginning balance of the subsidy cost allowance				\$ (948)	\$ (1,752)
Add: subsidy expense for direct loans disbursed during the reporting years by component:					
	Interest rate differential costs				
	Default costs (net of recoveries)				
	Fees and other collections				
	Other subsidy costs				
Total of the above subsidy expense components				\$ -	\$ -
Adjustments:					
	Loan Modification				
	Fees received				
	Foreclosed property acquired				
	Loans written off				1
	Subsidy allowance amortization			477	752
	Other				
End balance of the subsidy cost allowance before reestimates				477	753
Add or subtract subsidy reestimates by component:					
(a)	Interest rate reestimate			176	36
(b)	Technical/default reestimate			73	15
Total of the above reestimate components				249	51
<b>Ending Balance of the subsidy cost allowance</b>				<b>\$ (222)</b>	<b>\$ (948)</b>
EPA has not disbursed Direct Loans since 1993.					

#### **Note 8. Accounts Payable and Accrued Liabilities**

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2010 and 2009:

		<b>FY 2010</b>	<b>FY 2009</b>
<b>Intragovernmental:</b>			
Accounts Payable	\$	1,466	\$ 2,230
Accrued Liabilities		49,859	73,824
<b>Total</b>	<b>\$</b>	<b>51,325</b>	<b>\$ 76,054</b>
<b>Non-Federal:</b>			
		<b>FY 2010</b>	<b>FY 2009</b>
Accounts Payable	\$	118,033	\$ 116,799
Advances Payable		8	9
Interest Payable		7	6
Grant Liabilities		650,526	521,188
Other Accrued Liabilities		262,874	227,762
<b>Total</b>	<b>\$</b>	<b>1,031,448</b>	<b>\$ 865,764</b>

Other Accrued Liabilities primarily relate to contractor accruals.

**Note 9. General Property, Plant, and Equipment, Net**

General property, plant, and equipment (PP&E) consists of software, real property, EPA and contractor-held personal property, and capital leases.

As of September 30, 2010 and 2009, General PP&E consists of the following:

	<b>FY 2010</b>			<b>FY 2009</b>		
	<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>	<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
EPA-Held Equipment	\$ 252,920	\$ (145,672)	\$ 107,248	\$ 246,999	\$ (138,385)	\$ 108,614
Software	443,847	(158,034)	285,813	373,964	(118,115)	255,849
Contractor Held Equip.	95,494	(39,225)	56,269	79,855	(47,207)	32,648
Land and Buildings	630,252	(177,654)	452,598	607,131	(166,316)	440,815
Capital Leases	35,440	(22,247)	13,193	41,068	(26,506)	14,562
<b>Total</b>	<b>\$ 1,457,953</b>	<b>\$ (542,832)</b>	<b>\$ 915,121</b>	<b>\$ 1,349,017</b>	<b>\$ (496,529)</b>	<b>\$ 852,488</b>

**Note 10. Debt Due to Treasury**

The debt due to Treasury consists of borrowings to finance the Asbestos Loan Program. The debt to Treasury as of September 30, 2010 and 2009 is as follows:

<b>All Other Funds</b>	<b>FY 2010</b>			<b>FY 2009</b>		
	<b>Beginning Balance</b>	<b>Net Borrowing</b>	<b>Ending Balance</b>	<b>Beginning Balance</b>	<b>Net Borrowing</b>	<b>Ending Balance</b>
<b>Intragovernmental:</b>						
Debt to Treasury	\$ 9,983	\$ (5,139)	\$ 4,844	\$ 13,158	\$ (3,175)	\$ 9,983

**Note 11. Stewardship Land**

The Agency acquires title to certain property and property rights under the authorities provided in CERCLA Section 104(j) related to remedial cleanup sites. The property rights are in the form of fee interests (ownership) and easements to allow access to cleanup sites or to restrict usage of remediated sites. The Agency takes title to the land during remediation and transfers it to state or local governments upon the completion of cleanup. A site with "land acquired" may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred under the terms of 104(j).

As of September 30, 2010, the Agency possesses the following land and land rights:



	<b>FY 2010</b>	<b>FY 2009</b>
<b>Superfund Sites with Easements</b>		
Beginning Balance	33	32
Additions	2	2
Withdrawals	0	1
Ending Balance	35	33
<b>Superfund Sites with Land Acquired</b>		
Beginning Balance	30	31
Additions	2	0
Withdrawals	0	1
Ending Balance	32	30

#### **Note 12. Custodial Liability**

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2010 and 2009, custodial liability is approximately \$53 million and \$71 million, respectively.

#### **Note 13. Other Liabilities**

Other Liabilities consist of the following as of September 30, 2010:

<b>Other Liabilities – Intragovernmental</b>		<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>		<b>Total</b>
<b>Current</b>					
Employer Contributions & Payroll Taxes	\$	22,585	\$ -	\$	22,585
WCF Advances		1,706	-		1,706
Other Advances		52,596	-		52,596
Advances, HRSTF Cashout		20,431	-		20,431
Deferred HRSTF Cashout		1,831	-		1,831
Liability for Deposit Funds		-	-		-
Resources Payable to Treasury		649	-		649
Subsidy Payable to Treasury		256	-		256
<b>Non-Current</b>					
Unfunded FECA Liability		-	10,232		10,232
Payable to Treasury Judgment Fund		-	22,000		22,000
<b>Total Intragovernmental</b>	<b>\$</b>	<b>100,054</b>	<b>\$ 32,232</b>	<b>\$</b>	<b>132,286</b>
<b>Other Liabilities - Non-Federal</b>					
<b>Current</b>					
Unearned Advances, Non-Federal	\$	65,314	\$ -	\$	65,314
Liability for Deposit Funds, Non-Federal		8,128	-		8,128
Contract Holdbacks		155			155
<b>Non-Current</b>					
Other Liabilities		-	200		200
Capital Lease Liability		-	26,199		26,199
<b>Total Non-Federal</b>	<b>\$</b>	<b>73,597</b>	<b>\$ 26,399</b>	<b>\$</b>	<b>99,996</b>

Other Liabilities consist of the following as of September 30, 2009:

<b>Other Liabilities – Intragovernmental</b>	<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
<b>Current</b>			
Employer Contributions & Payroll Taxes	\$ 19,875	\$ -	\$ 19,875
WCF Advances	960	-	960
Other Advances	60,043	-	60,043
Advances, HRSTF Cashout	27,642	-	27,642
Deferred HRSTF Cashout	-	-	-
Liability for Deposit Funds	-	-	-
Resources Payable to Treasury	3	-	3
Subsidy Payable to Treasury	54	-	54
<b>Non-Current</b>			
Unfunded FECA Liability	-	10,068	10,068
Payable to Treasury Judgment Fund	-	22,000	22,000
<b>Total Intragovernmental</b>	<b>\$ 108,577</b>	<b>\$ 32,068</b>	<b>\$ 140,645</b>
<b>Other Liabilities - Non-Federal</b>			
<b>Current</b>			
Unearned Advances	\$ 79,490	\$ -	\$ 79,490
Liability for Deposit Funds	8,330	-	8,330
<b>Non-Current</b>			
Other Liabilities	-	230	230
Capital Lease Liability	-	27,868	27,868
<b>Total Non-Federal</b>	<b>\$ 87,820</b>	<b>\$ 28,098</b>	<b>\$ 115,918</b>

#### **Note 14. Leases**

##### **Capital Leases:**

The value of assets held under Capital Leases as of September 30, 2010 and 2009 are as follows:

<b>Summary of Assets Under Capital Lease:</b>	<b>FY 2010</b>	<b>FY 2009</b>
Real Property	\$ 35,285	\$ 40,913
Personal Property	155	155
Software License	-	-
<b>Total</b>	<b>\$ 35,440</b>	<b>\$ 41,068</b>
Accumulated Amortization	\$ 22,246	\$ 26,506

EPA had three capital leases for land and buildings housing scientific laboratories and computer facilities. All of these leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by

the Bureau of Labor Statistics, U.S. Department of Labor. One capital lease expired during FY 2010 and the others leases terminate in FY 2013 and FY 2025.

The total future minimum capital lease payments are listed below.

<b><u>Future Payments Due:</u></b>		
<b><u>Fiscal Year</u></b>		<b>Capital Leases</b>
2011	\$	5,714
2012		5,714
2013		5,714
2014		4,215
After 5 years		43,558
<b>Total Future Minimum Lease Payments</b>		<b>64,915</b>
Less: Imputed Interest	\$	(38,716)
<b>Net Capital Lease Liability</b>		<b>26,199</b>
<b>Liabilities not Covered by Budgetary Resources</b>	<b>\$</b>	<b>26,199</b>
<b>(See Note 13)</b>		

### **Operating Leases:**

The General Services Administration (GSA) provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties.

EPA had four direct operating leases for land and buildings housing scientific laboratories and computer facilities. The leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. Two leases expired in FY 2010 and the other two expire in FY 2017 and FY 2020. These charges are expended from the EPM appropriation.

The total minimum future operating lease costs are listed below:

	<b>Operating Leases, Land and Buildings</b>	
<b><u>Fiscal Year</u></b>		
2011	\$	89
2012		89
2013		89
2014		89
Beyond 2014		374
<b>Total Future Minimum Lease Payments</b>	<b>\$</b>	<b>730</b>

**Note 15. FECA Actuarial Liabilities**

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, EPA is allocated the portion of the long-term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by the Department of Labor.

The FECA Actuarial Liability as of September 30, 2010 and 2009 was \$44.9 million and \$44.1 million, respectively. The FY 2010 present value of these estimated outflows is calculated using a discount rate of 3.653 percent in the first year and 4.3 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

**Note 16. Cashout Advances, Superfund**

Cashout advances are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response actions at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest-bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2010 and 2009, cashouts are approximately \$637 million and \$572 million, respectively.

**Note 17. Unexpended Appropriations – Other Funds**

As of September 30, 2010 and 2009, the Unexpended Appropriations consist of the following:

<b>Unexpended Appropriations:</b>		<b><u>FY 2010</u></b>		<b><u>FY 2009</u></b>
Unobligated				
Available	\$	184,815	\$	1,652,461
Unavailable		275,592		70,053
Undelivered Orders		12,882,377		12,813,833
<b>Total</b>	<b>\$</b>	<b><u>13,342,784</u></b>	<b>\$</b>	<b><u>14,536,347</u></b>

**Note 18. Commitments and Contingencies**

EPA may be a party in various administrative proceedings, actions, and claims brought by or against it. These include:

- Various personnel actions, suits, or claims brought against the Agency by employees and others.

- Various contract and assistance program claims brought against the Agency by vendors, grantees, and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from RPs.
- Claims against recipients for improperly spent assistance funds, which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

As of September 30, 2010 and 2009 total accrued liabilities for commitments and potential loss contingencies is \$4.37 million and \$4.57 million, respectively. Further discussion of the cases and claims that give rise to this accrued liability are discussed immediately below.

### **Litigation Claims and Assessments**

There is currently one legal claim that has been asserted against EPA pursuant to the Federal Tort Claims and Fair Labor Standards Acts. This loss has been deemed probable, and the unfavorable outcome is estimated to be between \$2 million and \$8 million. EPA has accrued the higher conservative amount as of September 30, 2010. The maximum amount of exposure under the claim could reach as much as \$8 million in the aggregate.

### **Superfund**

Under CERCLA Section 106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA Section 106(b) allows a party that has complied with such an order to petition EPA for reimbursement from the fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

As of September 30, 2010, there is one CERCLA Section 106(b) administrative claim that has been asserted and for which an unfavorable outcome has been deemed probable. It is estimated that the potential loss could be approximately \$2.37 million and this amount has been accrued as of September 30, 2010.

### **Judgment Fund**

In cases that are paid by the U.S. Treasury Judgment Fund, EPA must recognize the full cost of a claim, regardless of which entity is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the Agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions."

As of September 30, 2010, there are no material claims pending in the Treasury's Judgment Fund. However, EPA has a \$22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim.

## Other Commitments

EPA has a commitment to fund the U.S. Government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Governments of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as CEC). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. For the periods ended September 30, 2010 and 2009, EPA paid \$3 million to the CEC for each period. A payment of \$3 million was made in FY 2010.

EPA has a legal commitment under a non-cancellable agreement, subject to the availability of funds, with the United Nations Environment Program (UNEP). This agreement enables EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. EPA made payments totaling \$10.5 million in FY 2010. Future payments totaling \$9.6 million have been deemed reasonably possible and are anticipated to be paid in fiscal years 2011 through 2013.

### Note 19. Earmarked Funds

	Environmental Services	LUST	Superfund	Other Earmarked Funds	Total Earmarked Funds
<b>Balance sheet as of September 30, 2010</b>					
Assets					
Fund Balance with Treasury	\$ 273,420	\$ 55,132	\$ 106,247	\$ 29,578	\$ 464,377
Investments		3,502,913	3,740,700		7,243,613
Accounts Receivable, Net			391,388	7,697	399,085
Other Assets		266	115,729	6,199	122,194
Total Assets	273,420	3,558,311	4,354,064	43,474	8,229,269
Other Liabilities	\$ 4	\$ 19,094	\$ 1,013,566	\$ 44,223	\$ 1,076,887
Total Liabilities	\$ 4	\$ 19,094	\$ 1,013,566	\$ 44,223	\$ 1,076,887
Cumulative Results of Operations	\$ 273,416	\$ 3,539,217	\$ 3,340,498	\$ (749)	\$ 7,152,382
Total Liabilities and Net Position	\$ 273,420	\$ 3,558,311	\$ 4,354,064	\$ 43,474	\$ 8,229,269
<b>Statement of Changes in Net Cost for the Period Ended September 30, 2010</b>					
Gross Program Costs	\$ -	\$ 181,870	\$ 1,844,712	\$ 121,214	\$ 2,147,796
Less: Eamed Revenues	-	-	484,165	98,246	582,411
Net Cost of Operations	\$ -	\$ 181,870	\$ 1,360,547	\$ 22,968	\$ 1,565,385
<b>Statement of Changes in Net Position for the Period ended September 30, 2010</b>					
Net Position, Beginning of Period	\$ 231,820	\$ 3,436,303	\$ 3,416,536	\$ 1,817	\$ 7,086,476
Nonexchange Revenue- Securities Investments		115,523	14,968	13	130,504
Nonexchange Revenue	41,596	168,990	3,396	2	213,984
Other Budgetary Finance Sources			1,241,402	18,379	1,259,781
Other Financing Sources		271	24,743	2,008	27,022
Net Cost of Operations		(181,870)	(1,360,547)	(22,968)	(1,565,385)
Change in Net Position	\$ 41,596	\$ 102,914	\$ (76,038)	\$ (2,566)	\$ 65,906
Net Position	\$ 273,416	\$ 3,539,217	\$ 3,340,498	\$ (749)	\$ 7,152,382





substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. EPA allocates funds from its appropriation to other federal agencies to carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's NPL are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by EPA, private parties, or other federal agencies. The Superfund Trust Fund includes Treasury's collections, special account receipts from settlement agreements, and investment activity.

#### **Other Earmarked Funds:**

***Oil Spill Response Trust Fund:*** The Oil Spill Response Trust Fund, Treasury fund group 8221, was authorized by OPA. Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring, and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and SPCC requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for oil spill cleanup actions is provided through the U.S. Coast Guard under the Oil Spill Liability Trust Fund and reimbursable funding from other federal agencies.

***Miscellaneous Contributed Funds Trust Fund:*** The Miscellaneous Contributed Funds Trust Fund authorized in the Federal Water Pollution Control Act (Clean Water Act), as amended, P.L. 92-500 (The Federal Water Pollution Control Act Amendments of 1972), Treasury fund group 8741, includes gifts for pollution control programs that are usually designated for a specific use by donors and/or deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner.

***Pesticide Registration Fund:*** The Pesticide Registration Fund authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199)," Treasury fund group 5374, was authorized in 2004 for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Amendments of 1988, are to be paid by industry and deposited into this fund group.

***Reregistration and Expedited Processing Fund:*** The Revolving Fund, Treasury fund group 4310, was authorized by the FIFRA of 1972, as amended by the FIFRA Amendments of 1988 and the Food Quality Protection Act of 1996. Pesticide maintenance fees are paid by industry to offset the costs of pesticide re-registration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

***Tolerance Revolving Fund:*** The Tolerance Revolving Fund, Treasury fund group 4311, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997, were accounted for under this fund. Presently, collection of these fees is prohibited by statute, enacted in the Consolidated Appropriations Act, 2004 (P.L. 108-199).

**Exxon Valdez Settlement Fund:** The Exxon Valdez Settlement Fund, authorized by P.L. 102-389, "Making appropriations for the Department of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the fiscal year ending September 30, 1993," Treasury fund group 5297, has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

**Note 20. Exchange Revenues, Statement of Net Cost**

Exchange, or earned revenues on the Statement of Net Cost include income from services provided, interest revenue (with the exception of interest earned on trust fund investments), and miscellaneous earned revenue. As of September 30, 2010 and 2009, exchange revenues are \$693.4 million and \$773.6 million, respectively.

**Note 21. Intragovernmental Costs and Exchange Revenue**

	FY 2010			FY 2009		
	Intragovernm ental	With the Public	Total	Intragovern mental	With the Public	Total
<b>Clean Air</b>						
Program Costs	\$ 170,677	\$ 1,048,124	\$ 1,218,801	\$ 187,484	\$ 874,787	\$ 1,062,271
Earned Revenue	18,923	5,906	24,829	15,455	3,036	18,491
NET COST	\$ 151,754	\$ 1,042,218	\$ 1,193,972	\$ 172,029	\$ 871,751	\$ 1,043,780
<b>Clean and Safe Water</b>						
Program Costs	\$ 193,456	\$ 6,197,330	\$ 6,390,786	\$ 191,558	\$ 3,236,903	\$ 3,428,461
Earned Revenue	2,803	2,524	5,327	4,758	3,208	7,966
NET COSTS	\$ 190,653	\$ 6,194,806	\$ 6,385,459	\$ 186,800	\$ 3,233,695	\$ 3,420,495
<b>Land Preservation &amp; Restoration</b>						
Program Costs	\$ 342,734	\$ 2,096,211	\$ 2,438,945	\$ 386,549	\$ 1,821,301	\$ 2,207,850
Earned Revenue	103,687	446,569	550,256	101,767	580,119	681,886
NET COSTS	\$ 239,047	\$ 1,649,642	\$ 1,888,689	\$ 284,782	\$ 1,241,182	\$ 1,525,964
<b>Healthy Communities &amp; Ecosystems</b>						
Program Costs	\$ 293,850	\$ 1,265,653	\$ 1,559,503	\$ 271,028	\$ 1,134,155	\$ 1,405,183
Earned Revenue	64,034	44,144	108,178	20,047	42,267	62,314
NET COSTS	\$ 229,816	\$ 1,221,509	\$ 1,451,325	\$ 250,981	\$ 1,091,888	\$ 1,342,869
<b>Compliance &amp; Environmental Stewardship</b>						
Program Costs	\$ 182,299	\$ 615,931	\$ 798,230	\$ 207,660	\$ 609,538	\$ 817,198
Earned Revenue	3,400	1,494	4,894	4,071	(1,116)	2,955
NET COSTS	\$ 178,899	\$ 614,437	\$ 793,336	\$ 203,589	\$ 610,654	\$ 814,243
<b>Total</b>						
Program Costs	\$ 1,183,016	\$ 11,223,249	\$ 12,406,265	\$ 1,244,279	\$ 7,676,684	\$ 8,920,963
Earned Revenue	192,847	500,637	693,484	146,098	627,514	773,612
NET COSTS	\$ 990,169	\$ 10,722,612	\$ 11,712,781	\$ 1,098,181	\$ 7,049,170	\$ 8,147,351

Intragovernmental costs relate to the source of goods or services not the classification of the related revenue.

#### **Note 22. Cost of Stewardship Land**

There were no costs related to the acquisition of stewardship land for September 30, 2010 and approximately \$323,000 for September 30, 2009. These costs are included in the Statement of Net Cost.

#### **Note 23. Environmental Cleanup Costs**

As of September 30, 2010, EPA has one site that requires cleanup stemming from its activities. For sites that had previously been listed, it was determined by EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the following reasons: 1) although EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to EPA; 2) any demand against EPA will be resolved only after the Superfund cleanup work is completed, which may be years in the future; and 3) there was no legal activity on these matters in FY 2009 or in FY 2010. During FY 2009, costs amounting to approximately \$53,000 were paid out by the Treasury Judgment Fund for another site, and no further action is warranted.

EPA also holds title to a site in Edison, New Jersey which was formerly an Army Depot. While EPA did not cause the contamination, the Agency could potentially be liable for a portion of the cleanup costs, an unfunded environmental liability of \$200,000.

Accrued Cleanup Cost:

EPA has 15 sites that will require permanent closure, and EPA is responsible to fund the environmental cleanup of those sites. As of September 30, 2010 and 2009, the estimated costs for site cleanup were \$20.15 million and \$19.49 million, respectively. Since the cleanup costs associated with permanent closure were not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

#### **Note 24. State Credits**

Authorizing statutory language for Superfund and related federal regulations requires states to enter into SSCs when EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that it will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will provide EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA-approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. The credit is limited to state site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-federal funds for remedial action.

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2010 and 2009, the total remaining state credits have been estimated at \$21.0 million and \$21.9 million, respectively.

**Note 25. Preauthorized Mixed Funding Agreements**

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2010, EPA had six outstanding preauthorized mixed funding agreements with obligations totaling \$15.6 million, and as of September 30, 2009, EPA had nine agreements with obligations totaling \$19.9 million. A liability is not recognized for these amounts until all work has been performed by the PRP and been approved by EPA for payment. Furthermore, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

**Note 26. Custodial Revenues and Accounts Receivable**

		<b>FY 2010</b>	<b>FY 2009</b>
<b>Fines, Penalties and Other Miscellaneous Receipts</b>	<b>\$</b>	<b>89,627</b>	<b>\$ 103,924</b>
<b>Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:</b>			
Accounts Receivable	\$	229,658	\$ 238,957
Less: Allowance for Uncollectible Accounts		(181,153)	(174,411)
<b>Total</b>	<b>\$</b>	<b>48,505</b>	<b>\$ 64,546</b>

EPA uses the accrual basis of accounting for the collection of fines, penalties, and miscellaneous receipts. Collectibility by EPA of the fines and penalties is based on the PRPs' willingness and ability to pay.

**Note 27. Reconciliation of President's Budget to the Statement of Budgetary Resources**

Budgetary resources, obligations incurred, and outlays, as presented in the audited FY 2010 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2011 Budget of the U.S. Government when they become available. The Budget, with actual numbers for FY 2010, has not yet been published. We expect it to be published by early 2011, and it will be available on the OMB website at [www.whitehouse.gov/](http://www.whitehouse.gov/).

The actual amounts published for the year ended September 30, 2009 are listed below:

FY 2009	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 21,014,069	\$ 17,311,047	\$ 1,884,134	\$ 9,950,864
Adjustments to Undelivered Orders and Others	844	(404)		(2)
Expired and Immaterial Funds*	(251,035)	(37)		5
Rounding Differences**	(8,878)	(5,606)	(134)	133
Reported in Budget of the U. S. Government	\$ 20,755,000	\$ 17,305,000	\$ 1,884,000	\$ 9,951,000

\* Expired funds are not included in Budgetary Resources Available for Obligation and Total New Obligations in the Budget Appendix (lines 23.90 and 10.00). Also, minor funds are not included in the Budget Appendix.

\*\* Balances are rounded to millions in the Budget Appendix.

**Note 28. Recoveries and Resources Not Available, Statement of Budgetary Resources**

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2010 and 2009:

	FY 2010	FY 2009
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	\$ 277,771	\$ 220,329
Temporarily Not Available - Rescinded Authority	(11,800)	-
Permanently Not Available:		
Payments to Treasury	(5,191)	(3,180)
Rescinded authority	(52,897)	(10,000)
Canceled authority	(15,365)	(19,552)
<b>Total Permanently Not Available</b>	<b>\$ (73,453)</b>	<b>\$ (32,732)</b>

**Note 29. Unobligated Balances Available**

Unobligated balances are a combination of two lines on the Statement of Budgetary Resources: Apportioned, Unobligated Balances and Unobligated Balances Not Available. Unexpired unobligated balances are available to be apportioned by OMB for new obligations at the beginning of the following fiscal year. The expired unobligated balances are only available for upward adjustments of existing obligations.

The unobligated balances available consist of the following as of September 30, 2010 and 2009:

		<b><u>FY 2010</u></b>		<b><u>FY 2009</u></b>
Unexpired Unobligated Balance	\$	4,441,115	\$	3,452,750
Expired Unobligated Balance		185,226		250,272
<b>Total</b>	<b>\$</b>	<b><u>4,626,341</u></b>	<b>\$</b>	<b><u>3,703,022</u></b>

**Note 30. Undelivered Orders at the End of the Period**

Budgetary resources obligated for undelivered orders at September 30, 2010 and 2009 were \$12.63 billion and \$14.69 billion, respectively.

**Note 31. Offsetting Receipts**

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For FY 2010 and 2009, the following receipts were generated from these activities:

		<b><u>FY 2010</u></b>		<b><u>FY 2009</u></b>
Trust Fund Recoveries	\$	53,247	\$	96,782
Special Fund Environmental Service		41,599		20,539
Downward Re-estimates of Subsidies		51		5
Trust Fund Appropriation		1,280,570		1,747,911
Special Fund Receipt Account and Treasury				
Miscellaneous Receipt and Clearing Accounts		27,493		18,897
<b>Total</b>	<b>\$</b>	<b><u>1,402,960</u></b>	<b>\$</b>	<b><u>1,884,134</u></b>

**Note 32. Transfers In and Out, Statement of Changes in Net Position**

**Appropriation Transfers, In/Out:**

For FY 2010 and 2009, the Appropriation Transfers Under Budgetary Financing Sources on the Statement of Changes in Net Position comprise non-expenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, and Net Transfers lines on the Statement of Budgetary Resources. Details of the Appropriation Transfers on the Statement of Changes in Net Position and reconciliation with the Statement of Budgetary Resources follows for September 30, 2010 and 2009:

### Transfers In/Out Without Reimbursement, Budgetary:

<b>Fund/Type of Account</b>		<b>FY 2010</b>		<b>FY 2009</b>
Army Corps of Engineers	\$	(9,000)	\$	
U.S. Navy		(8,000)		(8,000)
Small Business Administration				(2,953)
Total Appropriation Transfers (Other Funds)		(17,000)		(10,953)
Net Transfers from Invested Funds		1,386,345		1,382,030
Transfers to Another Agency		(17,000)		(10,953)
Allocations Rescinded	\$		\$	-
Total of Net Transfers on Statement of Budgetary Resources	\$	<b>1,369,345</b>	\$	<b>1,371,077</b>

For FY 2010 and 2009, Transfers In/Out Under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers to or from other federal agencies and between EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers in and transfers out, expenditure and non-expenditure, follow for September 30, 2010 and 2009:

<b>Type of Transfer/Funds</b>	<b>FY 2010</b>		<b>FY 2009</b>	
	<b>Earmarked</b>	<b>Other Funds</b>	<b>Earmarked</b>	<b>Other Funds</b>
Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds	\$ (39,168)	\$ 33,859	\$ (57,392)	\$ 57,392
Transfer-in nonexpenditure recovery from CDC			-	-
Transfers-in nonexpenditure, Oil Spill	18,379		17,687	-
Transfer-in (out) cancelled funds			-	-
Total Transfer in (out) without Reimbursement, Budgetary	\$ <b>(20,789)</b>	\$ <b>33,859</b>	\$ <b>(39,705)</b>	\$ <b>57,392</b>

### Transfers In/Out Without Reimbursement, Other Financing Sources:

For FY 2010 and 2009, Transfers In/Out Without Reimbursement Under Other Financing Sources on the Statement of Changes in Net Position comprise negative subsidy to a special receipt fund for the credit reform funds.

The amounts reported on the Statement of Changes in Net Position are as follows for September 30, 2010 and 2009:

Type of Transfer/Funds	FY 2010		FY 2009	
	Earmark	Other Funds	Earmark	Other Funds
Transfers-in by allocation transfer agency	\$	\$	\$ 84	\$ -
Transfers-in property		341	-	46
Transfers (out) of prior year negative subsidy to be paid following year		205	-	(740)
Total Transfer in (out) without Reimbursement, Budgetary	\$ -	\$ 546	\$ 84	\$ (694)

**Note 33. Imputed Financing**

In accordance with SFFAS No. 5, "Accounting for Liabilities of the Federal Government," federal agencies must recognize the portion of employees' pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year's salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2010 were \$146.8 million (\$23.7 million from Earmarked Funds and \$123.1 million from Other Funds). For FY 2009, the estimates were \$197.8 million (\$25.1 million from Earmarked Funds and \$172.7 million from Other Funds).

SFFAS No. 4, "Managerial Cost Accounting Standards and Concepts" and SFFAS No. 30, "Inter-Entity Cost Implementation," requires federal agencies to recognize the costs of goods and services received from other federal entities that are not fully reimbursed, if material. EPA estimates imputed costs for inter-entity transactions that are not at full cost and records imputed costs and financing for these unreimbursed costs subject to materiality. EPA applies its Headquarters General and Administrative indirect cost rate to expenses incurred for inter-entity transactions for which other federal agencies did not include indirect costs to estimate the amount of unreimbursed (i.e., imputed) costs. For FY 2010 total imputed costs were \$10.8 million (\$3.3 million from Earmarked Funds and \$7.5 million from Other Funds).

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the Agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions." For FY 2010, entries for Judgment Fund payments totaled \$4.0 million (Other Funds). For FY 2009, entries for Judgment Fund payments totaled \$3.7 million (Other Funds).

The combined totals of imputed financing sources for FY 2010 and FY 2009 are \$161.6 million and \$213.3 million, respectively.



**Note 34. Payroll and Benefits Payable**

Payroll and benefits payable to EPA employees for the years ending September 30, 2010 and 2009 consist of the following:

		Covered by Budgetary Resources		Not Covered by Budgetary Resources		Total
<b>FY 2010 Payroll &amp; Benefits Payable</b>						
Accrued Funded Payroll & Benefits	\$	66,677	\$	-	\$	66,677
Withholdings Payable		31,298		-		31,298
Employer Contributions Payable-TSP		3,588		-		3,588
Accrued Unfunded Annual Leave		-		163,412		163,412
<b>Total - Current</b>	<b>\$</b>	<b>101,563</b>	<b>\$</b>	<b>163,412</b>	<b>\$</b>	<b>264,975</b>
<b>FY 2009 Payroll &amp; Benefits Payable</b>						
Accrued Funded Payroll and Benefits	\$	57,004	\$	-	\$	57,004
Withholdings Payable		31,307		-		31,307
Employer Contributions Payable-TSP		3,177		-		3,177
Accrued Unfunded Annual Leave		-		159,129		159,129
<b>Total - Current</b>	<b>\$</b>	<b>91,488</b>	<b>\$</b>	<b>159,129</b>	<b>\$</b>	<b>250,617</b>

**Note 35. Other Adjustments, Statement of Changes in Net Position**

The Other Adjustments Under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellation of funds that expired five years earlier. These amounts affect Unexpended Appropriations.

		Other Funds FY 2010		Other Funds FY 2009
Rescissions to General Appropriations	\$	50,623	\$	29,551
Canceled General Authority		15,366		-
<b>Total Other Adjustments</b>	<b>\$</b>	<b>65,989</b>	<b>\$</b>	<b>29,551</b>

<b>Note 36. Non-exchange Revenue, Statement of Changes in Net Position</b>
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Non-exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position as of September 30, 2010 and 2009 consists of the following items:

		<b>Earmarked Funds</b>		<b>Earmarked Funds</b>
		<b><u>FY 2010</u></b>		<b><u>FY 2009</u></b>
Interest on Trust Fund	\$	130,504	\$	176,168
Tax Revenue, Net of Refunds		172,127		169,186
Fines and Penalties Revenue		261		(1,479)
Special Receipt Fund Revenue		41,596		20,538
<b>Total Nonexchange Revenue</b>	<b>\$</b>	<b>344,488</b>	<b>\$</b>	<b>364,413</b>

**Note 37. Reconciliation of Net Cost of Operations to Budget**

							<b>FY 2010</b>		<b>FY 2009</b>
<b>RESOURCES USED TO FINANCE ACTIVITIES</b>									
Budgetary Resources Obligated									
	Obligations Incurred					\$	11,950,681	\$	17,311,047
	Less: Spending Authority from Offsetting Collections and Recoveries						(1,333,690)		(847,465)
	Obligations, Net of Offsetting Collections					\$	10,616,991	\$	16,463,582
	Less: Offsetting Receipts						(1,375,422)		(1,884,134)
	Net Obligations					\$	9,241,569	\$	14,579,448
Other Resources									
	Transfers In/Out without Reimbursement, Property					\$	(341)	\$	656
	Imputed Financing Sources						161,640		213,331
	Net Other Resources Used to Finance Activities					\$	161,299	\$	213,987
Total Resources Used to Finance Activities						\$	9,402,868	\$	14,793,435
<b>RESOURCES USED TO FINANCE ITEMS</b>									
<b>NOT PART OF THE NET COST OF OPERATIONS:</b>									
	Change in Budgetary Resources Obligated					\$	2,166,944	\$	(6,440,873)
	Resources that Fund Prior Periods Expenses						-		(381)
	Budgetary Offsetting Collections and Receipts that								
	Do Not Affect Net Cost of Operations:								
	Credit Program Collections Increasing Loan Liabilities for								
	Guarantees or Subsidy Allowances:						5,681		3,943
	Offsetting Receipts Not Affecting Net Cost						94,852		136,222
	Resources that Finance Asset Acquisition						(213,953)		(138,030)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations						\$	2,053,524	\$	(6,439,119)
Total Resources Used to Finance the Net Cost of Operations						\$	11,456,392	\$	8,354,316
<b>COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL</b>							<b>FY 2010</b>		<b>FY 2009</b>
<b>NOT REQUIRE OR GENERATE RESOURCES IN THE CURRENT PERIOD:</b>									
Components Requiring or Generating Resources in Future Periods:									
	Increase in Annual Leave Liability					\$	4,232	\$	6,461
	Increase in Environmental and Disposal Liability						630		83
	Increase in Unfunded Contingencies						(200)		4,529
	Upward/ Downward Reestimates of Credit Subsidy Expense						(207)		-
	Increase in Public Exchange Revenue Receivables						7,375		(337,008)
	Increase in Workers Compensation Costs						979		-
	Other						(3,077)		(3,232)
Total Components of Net Cost of Operations that Require or									
Generate Resources in Future Periods						\$	9,732	\$	(329,167)
Components Not Requiring/ Generating Resources:									
	Depreciation and Amortization						85,741	\$	71,550
	Expenses Not Requiring Budgetary Resources						160,916		50,652
Total Components of Net Cost that Will Not Require or Generate Resources						\$	246,657	\$	122,202
Total Components of Net Cost of Operations That Will Not Require or						\$	256,389	\$	(206,965)
Generate Resources in the Current Period									
<b>Net Cost of Operations</b>						\$	<u>11,712,781</u>	\$	<u>8,147,351</u>

**Note 38. Amounts Held by Treasury (UNAUDITED)**

Amounts held by Treasury for future appropriations consist of amounts held in trusteeship by Treasury in the Superfund and LUST Trust Funds.

**Superfund**

Superfund is supported by general revenues, cost recoveries of funds spent to clean up hazardous waste sites, interest income, and fines and penalties.

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2010 and 2009. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by EPA's Superfund Trust Fund; such funds are eliminated upon consolidation with the Superfund Trust Fund maintained by Treasury.

<b>SUPERFUND FY 2010</b>		<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>				
Uninvested Fund Balance	\$	-	\$ 4,234,294	\$ 4,234,294
Total Undisbursed Balance		-	4,234,294	4,234,294
Interest Receivable		-	4,442,724	4,442,724
Investments, Net		3,526,671,825	209,585,595	3,736,257,420
<b>Total Assets</b>	\$	<b>3,526,671,825</b>	<b>\$ 218,262,613</b>	<b>\$ 3,744,934,438</b>
<b>Liabilities &amp; Equity</b>				
Equity	\$	3,526,671,825	\$ 218,262,613	\$ 3,744,934,438
<b>Total Liabilities and Equity</b>	\$	<b>3,526,671,825</b>	<b>\$ 218,262,613</b>	<b>\$ 3,744,934,438</b>
<b>Receipts</b>				
Corporate Environmental		-	3,137,141	3,137,141
Cost Recoveries		-	53,246,618	53,246,618
Fines & Penalties		-	3,451,837	3,451,837
Total Revenue		-	59,835,596	59,835,596
Appropriations Received		-	1,280,570,288	1,280,570,288
Interest Income		-	14,967,685	14,967,685
<b>Total Receipts</b>	\$	<b>-</b>	<b>\$ 1,355,373,569</b>	<b>\$ 1,355,373,569</b>
<b>Outlays</b>				
Transfers to/from EPA, Net	\$	1,308,704,084	\$ (1,308,704,084)	-
<b>Total Outlays</b>		<b>1,308,704,084</b>	<b>(1,308,704,084)</b>	<b>-</b>
<b>Net Income</b>	\$	<b>1,308,704,084</b>	<b>\$ 46,669,485</b>	<b>\$ 1,355,373,569</b>

In FY 2010, EPA received an appropriation of \$1.28 billion for Superfund. Treasury's Bureau of Public Debt (BPD)—the manager of the Superfund Trust Fund assets—records a liability to EPA for the amount of the appropriation. BPD does this to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation. As of September 30, 2010 and 2009, the Treasury Trust Fund has a liability to EPA for previously appropriated funds of \$3.53 billion and \$3.28 billion, respectively.

<b>SUPERFUND FY 2009</b>		<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>				
Uninvested Fund Balance	\$	-	\$ (7,975)	\$ (7,975)
Total Undisbursed Balance		-	(7,975)	(7,975)
Interest Receivable		-	19,624	19,624
Investments, Net		3,277,721	159,991	3,437,712
<b>Total Assets</b>	\$	<b>3,277,721</b>	\$ <b>171,640</b>	\$ <b>3,449,361</b>
<b>Liabilities &amp; Equity</b>				
Receipts and Outlays		-		-
Equity	\$	3,277,721	\$ 171,640	\$ 3,449,361
<b>Total Liabilities and Equity</b>	\$	<b>3,277,721</b>	\$ <b>171,640</b>	\$ <b>3,449,361</b>
<b>Receipts</b>				
Cost Recoveries	\$	-	\$ 96,782	\$ 96,782
Fines & Penalties		-	1,374	1,374
Total Revenue		-	98,156	98,156
Appropriations Received		-	1,747,911	1,747,911
Interest Income		-	52,064	52,064
<b>Total Receipts</b>	\$	<b>-</b>	\$ <b>1,898,131</b>	\$ <b>1,898,131</b>
<b>Outlays</b>				
Transfers to/from EPA, Net	\$	1,905,845	\$ (1,905,845)	\$ -
<b>Total Outlays</b>		<b>1,905,845</b>	<b>(1,905,845)</b>	<b>-</b>
<b>Net Income</b>	\$	<b>1,905,845</b>	\$ <b>(7,714)</b>	\$ <b>1,898,131</b>

## LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2010 and 2009, there were no fund receipts from cost recoveries. The following represents the LUST Trust Fund as maintained by Treasury. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated upon consolidation with the LUST Trust Fund maintained by Treasury.

<b>LUST FY 2010</b>		<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>				
Uninvested Fund Balance	\$	-	\$ (5,349,000)	\$ (5,349,000)
Total Undisbursed Balance		-	(5,349,000)	(5,349,000)
Interest Receivable		-	20,815,275	20,815,275
Investments, Net		210,146,189	3,271,951,525	3,482,097,714
<b>Total Assets</b>	\$	<b>210,146,189</b>	<b>\$ 3,287,417,800</b>	<b>\$ 3,497,563,989</b>
<b>Liabilities &amp; Equity</b>				
<b>Equity</b>	\$	<b>210,146,189</b>	<b>\$ 3,287,417,800</b>	<b>\$ 3,497,563,989</b>
<b>Receipts</b>				
Highway TF Tax	\$	-	\$ 158,254,000	\$ 158,254,000
Airport TF Tax		-	10,685,000	10,685,000
Inland TF Tax		-	51,000	51,000
Total Revenue		-	168,990,000	168,990,000
Interest Income		-	115,523,147	115,523,147
<b>Total Receipts</b>	\$	<b>-</b>	<b>\$ 284,513,147</b>	<b>\$ 284,513,147</b>
<b>Outlays</b>				
Transfers to/from EPA, Net	\$	103,901,000	\$ (103,901,000)	\$ -
<b>Total Outlays</b>		<b>103,901,000</b>	<b>(103,901,000)</b>	<b>-</b>
<b>Net Income</b>	\$	<b>103,901,000</b>	<b>\$ 180,612,147</b>	<b>\$ 284,513,147</b>

<b>LUST FY 2009</b>		<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>				
Uninvested Fund Balance	\$	-	\$ (10,359)	\$ (10,359)
Total Undisbursed Balance		-	(10,359)	(10,359)
Interest Receivable		-	22,838	22,838
Investments, Net		305,445	3,094,325	3,399,770
<b>Total Assets</b>	\$	<b>305,445</b>	<b>\$ 3,106,804</b>	<b>\$ 3,412,249</b>
<b>Liabilities &amp; Equity</b>				
<b>Equity</b>	\$	<b>305,445</b>	<b>\$ 3,106,804</b>	<b>\$ 3,412,249</b>
<b>Receipts</b>				
Highway TF Tax	\$	-	\$ 159,719	\$ 159,719
Airport TF Tax		-	9,454	9,454
Inland TF Tax		-	13	13
Total Revenue		-	169,186	169,186
Interest Income		-	124,087	124,087
<b>Total Receipts</b>	\$	<b>-</b>	<b>\$ 293,273</b>	<b>\$ 293,273</b>
<b>Outlays</b>				
Transfers to/from EPA, Net	\$	312,577	\$ (312,577)	\$ -
<b>Total Outlays</b>		<b>312,577</b>	<b>(312,577)</b>	<b>-</b>
<b>Net Income</b>	\$	<b>312,577</b>	<b>\$ (19,304)</b>	<b>\$ 293,273</b>

**Note 39. Antideficiency Act (ADA) Violation Reported in 2010**

During FY 2004, EPA awarded a contract in the amount of \$194,000 for the analysis of drinking-water. The funding was available for FY 2004 and FY 2005. The contract performance period crossed three fiscal years: FY 2004, FY 2005, and FY 2006. As a result, the obligation of funds went beyond the appropriation, resulting in an ADA violation. On July 14, 2010, EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the 1) President, 2) President of the Senate, 3) Speaker of the House of Representatives, 4) Comptroller General, and 5) Director of OMB.

**Required Supplementary Information (Unaudited)**  
**Environmental Protection Agency**  
**As of September 30, 2010**  
**(Dollars in Thousands)**

**1. Deferred Maintenance**

Deferred maintenance is maintenance that was not performed when it should have been, that was scheduled and not performed, or that was delayed for a future period. Maintenance is the act of keeping PP&E in acceptable operating condition and includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those originally intended.

EPA classifies tangible PP&E as follows: 1) EPA-Held Equipment, 2) Contractor-Held Equipment, 3) Land and Buildings, and, 4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. No deferred maintenance was reported for any of the four categories.

**2. Stewardship Land**

Stewardship land is acquired as contaminated sites in need of remediation and cleanup; thus, the quality of the land is far below the standard for usable and manageable land. Easements on stewardship lands are in good and usable condition but were acquired to gain access to contaminated sites.



Required Supplementary Information (Unaudited)  
**Environmental Protection Agency**  
**As of September 30, 2010**  
**(Dollars in Thousands)**

**3. Supplemental Combined Statement of Budgetary Resources**  
**For the Period Ending September 30, 2010**

BUDGETARY RESOURCE	EPM	FIFRA	LUST	S&T	STAG	OTHER	TOTAL
Unobligated Balance Brought Forward, October 1	\$ 596,033	\$ 4,163	\$ 13,113	\$ 230,607	\$ 1,135,800	\$ 1,723,306	\$ 3,703,022
Recoveries of prior year unpaid obligations	32,763		7,137	5,155	55,779	176,938	277,771
Budgetary Authority:							
Appropriation	2,993,779		-	848,049	4,978,223	1,436,115	10,256,166
Borrowing Authority						52	52
Spending Authority from Offsetting Collections:							
Collected	98,534	23,237	36	12,260	4,719	780,000	918,786
Change in receivables from Federal sources	(2,786)	-		(116)	-	1,157	(1,746)
Advance received	(6,687)	(1,151)	-	(5,677)		248,074	234,559
Without advance from Federal source	(174,170)	-		(947)	-	42,629	(132,489)
Expenditure Transfers from trust funds	-			26,834		9,975	36,809
Nonexpenditure transfers, net anticipated and actual	(9,070)		113,101	-	(7,930)	1,273,244	1,369,345
Temporarily not available pursuant to Public Law			(9,200)			(2,600)	(11,800)
Permanently not available	(17,715)			(7,137)	(38,796)	(9,806)	(73,453)
<b>Total Budgetary Resources</b>	<b>\$ 3,510,680</b>	<b>\$ 26,249</b>	<b>\$ 124,186</b>	<b>\$ 1,109,028</b>	<b>\$ 6,127,795</b>	<b>\$ 5,679,083</b>	<b>\$ 16,577,022</b>
<b>STATUS OF BUDGETARY RESOURCES</b>							
Obligations Incurred:							
Direct	\$ 2,996,093	\$ -	\$ 117,024	\$ 846,166	\$ 4,410,501	\$ 2,890,669	\$ 11,260,452
Reimbursable	33,158	24,473	-	9,663	-	622,935	690,229
Total Obligations Incurred	3,029,250	24,473	117,024	855,829	4,410,501	3,513,604	11,950,681
Unobligated Balances:							
Unobligated funds apportioned	342,894	1,776	7,058	202,007	1,717,294	2,159,783	4,430,813
Unobligated balance not available	138,536	0	105	51,191	(0)	5,697	195,528
<b>Total Status of Budgetary Resources</b>	<b>\$ 3,510,680</b>	<b>\$ 26,249</b>	<b>\$ 124,186</b>	<b>\$ 1,109,028</b>	<b>\$ 6,127,795</b>	<b>\$ 5,679,083</b>	<b>\$ 16,577,022</b>
<b>CHANGE IN OBLIGATED BALANCE</b>							
<b>Obligated Balance, Net</b>							
Unpaid obligations brought forward, October 1	\$ 878,039	\$ 2,990	\$ 327,859	\$ 423,294	\$ 12,136,931	\$ 2,019,276	\$ 15,788,389
Less: Uncollected customer payments from Federal sources brought forward, October 1	(333,906)	-		(36,245)	-	(203,673)	(573,824)
Total unpaid obligation balance, net	544,133	2,990	327,859	387,048	12,136,931	1,815,603	15,214,565
Obligations incurred net	3,029,250	24,473	117,024	855,829	4,410,501	3,513,604	11,950,681
Less: Gross outlays	(2,655,567)	(25,036)	(174,282)	(862,403)	(6,410,218)	(3,460,886)	(13,588,391)
Less: Recoveries of prior year unpaid obligations, actual	(32,763)		(7,137)	(5,155)	(55,779)	(176,938)	(277,771)
Change in uncollected customer payments from Federal sources	176,957	-		1,181	-	(44,268)	133,869
Total	1,062,011	2,427	263,464	376,500	10,081,435	1,647,114	13,432,953
Obligated Balance, net, end of period:							
Unpaid obligations	1,218,961	2,427	263,464	411,565	10,081,435	1,895,056	13,872,909
Less: Uncollected customer payments from Federal sources	(156,949)	-		(35,065)	-	(247,942)	(439,956)
Total, unpaid obligated balance, net, end of period	\$ 1,062,012	\$ 2,427	\$ 263,464	\$ 376,500	\$ 10,081,435	\$ 1,647,114	\$ 13,432,953
<b>NET OUTLAYS</b>							
Gross outlays	\$ 2,655,567	\$ 25,036	\$ 174,282	\$ 862,403	\$ 6,410,218	\$ 3,460,886	\$ 13,588,391
Less: Offsetting collections	(91,847)	(22,086)	(36)	(33,534)	(4,719)	(1,037,566)	(1,189,788)
Less: Distributed Offsetting Receipts						(1,402,960)	(1,402,960)
<b>Total, Net Outlays</b>	<b>\$ 2,563,720</b>	<b>\$ 2,950</b>	<b>\$ 174,247</b>	<b>\$ 828,869</b>	<b>\$ 6,405,499</b>	<b>\$ 1,020,359</b>	<b>\$ 10,995,643</b>

**Environmental Protection Agency  
Required Supplemental Stewardship Information  
For the Year Ended September 30, 2010  
(Dollars in Thousands)**

***INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:***

EPA's Office of Research and Development provides the scientific basis for EPA decision-making by conducting cutting-edge science and technical analysis to assist in the development of sustainable solutions to our environmental problems and more innovative and effective approaches to reducing environmental risks. EPA is unique among scientific institutions in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across the risk assessment and risk management paradigm. Research enables us to assess and identify the most important sources of risk to human health and the environment, and by so doing, informs our priority-setting, ensures credibility of our policies, and guides our deployment of resources.

Among the Agency's highest priorities are research programs that address the development of alternative techniques for prioritizing chemicals for further testing through computational toxicology; the environmental effects on children's health; the potential risks and effects of manufactured nanomaterials on human health and the environment; the impacts of global change and providing information to policymakers to help them adapt to a changing climate; the potential risks of unregulated contaminants in drinking water; the development of recreational water quality criteria; the health effects of air pollutants such as particulate matter; the protection of the nation's ecosystems; and the provision of near-term, appropriate, affordable, reliable, tested, and effective technologies and guidance for potential threats to homeland security. EPA also supports regulatory decision-making with chemical risk assessments.

For FY 2010, the full cost of the Agency's Research and Development activities totaled more than \$663 million. Below is a breakout of the expenses (dollars in thousands):

	<u>FY 2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>
Programmatic Expenses	\$630,438	\$624,088	\$597,080	\$600,552	\$590,790
Allocated Expenses	\$104,167	\$100,553	\$103,773	\$119,630	\$71,958

Each of EPA's strategic goals has a Science and Research Objective.

***INVESTMENT IN THE NATION'S INFRASTRUCTURE:***

The Agency makes significant investments in the nation's drinking water and clean water infrastructure. The investments are the result of three programs: the Construction Grants Program, which is being phased out, and two SRF programs.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program was a source of federal funds, providing more than \$60 billion of direct grants for the construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers; rehabilitation of sewer systems; and the

control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. After 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by SRFs.

State Revolving Funds: EPA provides capital, in the form of capitalization grants, to SRFs, which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are repaid to the SRF, the collections are used to finance loans for new construction projects. The capital is reused by the states and is not returned to the federal government.

The Agency also is appropriated funds to finance the construction of infrastructure outside the SRFs. These are reported below as Other Infrastructure Grants.

The Agency's expenses related to investments in the nation's Water Infrastructure are outlined below (dollars in thousands):

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Construction Grants	\$39,193	\$9,975	\$11,517	\$30,950	\$13,009
Clean Water SRF	\$1,339,702	\$1,399,616	\$1,063,825	\$835,446	\$679,332
Safe Drinking Water SRF	\$910,032	\$962,903	\$816,038	\$906,803	\$733,804
Other Infrastructure Grants	\$411,023	\$381,481	\$388,555	\$306,366	\$229,632
Allocated Expenses	\$446,113	\$443,716	\$396,253	\$414,249	\$201,674

## ***HUMAN CAPITAL***

Agencies are required to report expenses incurred to train the public with the intent of increasing or maintaining the nation's economic productive capacity. Training, public awareness, and research fellowships are components of many of the Agency's programs and are effective in achieving the Agency's mission of protecting public health and the environment, but the focus is on enhancing the nation's environmental, not economic, capacity.

The Agency's expenses related to investments in the Human Capital are outlined below (dollars in thousands):

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Training and Awareness Grants	\$43,765	\$32,845	\$30,768	\$37,981	\$25,714
Fellowships	\$12,639	\$12,185	\$9,650	\$6,818	\$6,905
Allocated Expenses	\$9,320	\$7,255	\$7,025	\$8,924	\$3,973

					FY 2010		FY 2009	
<b>ASSETS</b>								
Intragovernmental:								
Fund Balance With Treasury (Note S1)					\$	106,247	\$	62,631
Investments						3,740,700		3,457,338
Accounts Receivable, Net						27,323		20,694
Other						12,941		23,100
Total Intragovernmental					\$	3,887,211	\$	3,563,763
Accounts Receivable, Net						364,065		748,838
Property, Plant & Equipment, Net						101,714		81,216
Other						1,075		419
<b>Total Assets</b>					\$	<b>4,354,065</b>	\$	<b>4,394,236</b>
<b>LIABILITIES</b>								
Intragovernmental:								
Accounts Payable and Accrued Liabilities						45,641		47,787
Custodial Liability						-		187
Other						62,260		76,051
Total Intragovernmental					\$	107,901	\$	124,025
Accounts Payable & Accrued Liabilities					\$	178,045	\$	183,477
Pensions & Other Actuarial Liabilities						6,420		7,829
Cashout Advances, Superfund (Note S2)						636,673		572,412
Payroll & Benefits Payable						45,792		44,604
Other						38,736		45,353
Total Liabilities					\$	<b>1,013,566</b>	\$	<b>977,700</b>
<b>NET POSITION</b>								
Cumulative Results of Operations						3,340,498		3,416,536
Total Net Position						3,340,498		3,416,536
<b>Total Liabilities and Net Position</b>					\$	<b>4,354,065</b>	\$	<b>4,394,236</b>

Section II – Page 60

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**  
**Statement of Net Cost for Superfund Trust Fund**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**  
**(Unaudited)**

					<b>FY 2010</b>		<b>FY 2009</b>
<b>COSTS</b>							
	Gross Costs			\$	1,844,712	\$	1,672,246
	Expenses from Other Appropriations				30,349		130,931
	Total Costs				1,875,061		1,803,177
	Less:						
	Earned Revenue				484,165		615,577
	<b>NET COST OF OPERATIONS</b>			<b>\$</b>	<b>1,390,896</b>	<b>\$</b>	<b>1,187,600</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**  
**Statement of Changes in Net Position for Superfund Trust Fund**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**  
**(Unaudited)**

			<b>FY 2010 Earmarked Funds</b>	<b>FY 2009 Earmarked Funds</b>
<b>Cumulative Results of Operations:</b>				
<b>Net Position - Beginning of Period</b>			3,416,536	2,702,763
	Beginning Balances, as Adjusted	\$	3,416,536	\$ 2,702,763
<b>Budgetary Financing Sources:</b>				
	Nonexchange Revenue - Securities Investment		14,968	52,065
	Nonexchange Revenue - Other		3,396	(1,479)
	Transfers In/Out		(39,168)	(54,393)
	Trust Fund Appropriations		1,280,570	1,747,911
	Income from Other Appropriations		30,349	130,931
	Total Budgetary Financing Sources	\$	1,290,115	\$ 1,875,035
<b>Other Financing Sources (Non-Exchange)</b>				
	Transfers In/Out		-	(84)
	Imputed Financing Sources		24,743	26,422
	Total Other Financing Sources	\$	24,743	\$ 26,338
	Net Cost of Operations		(1,390,896)	(1,187,600)
	Net Change		(76,038)	713,773
	<b>Cumulative Results of Operations</b>	\$	<b>3,340,498</b>	\$ <b>3,416,536</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**  
**Statement of Budgetary Resources for Superfund Trust Fund**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**  
**(Unaudited)**

		<b>FY 2010</b>	<b>FY 2009</b>
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance, Brought Forward, October 1:	\$	1,605,363	\$ 1,513,176
Adjusted Subtotal		1,605,363	1,513,176
Recoveries of Prior Year Unpaid Obligations		171,423	118,278
Budgetary Authority:			
Appropriation		36,809	636,392
Borrowing Authority		-	-
Spending Authority from Offsetting Collections			
Earned:			
Collected		518,936	292,403
Change in Receivables from Federal Sources		47	1,401
Change in Unfilled Customer Orders:			
Advance Received		244,146	12,032
Without Advance from Federal Sources		4,423	4,574
Anticipated for Rest of Year, Without Advances		-	-
Previously Unavailable		-	-
Expenditure Transfers from Trust Funds		-	-
Total Spending Authority from Offsetting Collections		767,552	310,410
Nonexpenditure Transfers, Net, Anticipated and Actual		1,273,244	1,269,453
Temporarily Not Available Pursuant to Public Law		(2,600)	-
Permanently Not Available		(4,102)	-
<b>Total Budgetary Resources</b>	<b>\$</b>	<b>3,847,690</b>	<b>\$ 3,847,709</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$	1,475,861	\$ 1,996,048
Reimbursable		312,141	246,297
Total Obligations Incurred		1,788,002	2,242,345
Unobligated Balances:			
Apportioned		2,058,813	1,593,443
Exempt from Apportionment		-	-
Total Unobligated Balances		2,058,813	1,593,443
Unobligated Balances Not Available		874	11,921
<b>Total Status of Budgetary Resources (Note S6)</b>	<b>\$</b>	<b>3,847,690</b>	<b>\$ 3,847,709</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**  
**Statement of Budgetary Resources for Superfund Trust Fund**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**  
**(Unaudited)**

		<b>FY 2010</b>	<b>FY 2009</b>
<b>CHANGE IN OBLIGATED BALANCE</b>			
Obligated Balance, Net:			
Unpaid Obligations, Brought Forward, October 1	\$	1,861,908	\$ 1,392,311
Adjusted Total		1,861,908	1,392,311
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1		(118,896)	(112,921)
Total Unpaid Obligated Balance, Net		1,743,012	1,279,390
Obligations Incurred, Net		1,788,002	2,242,345
Less: Gross Outlays		(1,785,572)	(1,654,470)
Obligated Balance Transferred, Net:			
Actual Transfers, Unpaid Obligations		-	-
Actual Transfers, Uncollected Customer Payments from Federal		-	-
Total Unpaid Obligated Balance Transferred, Net		-	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual		(171,423)	(118,278)
Change in Uncollected Customer Payments from Federal Sources		(4,471)	(5,975)
Total, Change in Obligated Balance		1,569,549	1,743,012
Obligated Balance, Net, End of Period:			
Unpaid Obligations		1,692,915	1,861,908
Less: Uncollected Customer Payments from Federal Sources		(123,366)	(118,896)
Total, Unpaid Obligated Balance, Net, End of Period	\$	1,569,549	\$ 1,743,012
<b>NET OUTLAYS</b>			
Net Outlays:			
Gross Outlays (Note S6)	\$	1,785,572	\$ 1,654,470
Less: Offsetting Collections (Note S6)		(763,081)	(304,434)
Less: Distributed Offsetting Receipts* (Note S6)		(53,247)	(1,244,694)
<b>Total, Net Outlays</b>	\$	969,244	\$ 105,342
Offsetting receipts line includes the amount in 68X0250 (payment to trust fund) from Treasury			
The payment cannot be made directly through the trust fund, but must go through a "pass-through" fund			

**The accompanying notes are an integral part of these financial statements.**



**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**  
**Related Notes to Superfund Trust Financial Statements**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**  
**(Unaudited)**

***Note S1. Fund Balance with Treasury for Superfund Trust***

Fund Balances with Treasury for the Superfund as of September 30, 2010 and 2009 are \$106.2 million and \$62.63 million, respectively. Fund balances are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below).

<b>Status of Fund Balances:</b>	<b><u>FY 2010</u></b>	<b><u>FY 2009</u></b>
Unobligated Amounts in Fund Balance:		
Available for Obligation	\$ 2,058,813	\$ 1,593,443
Unavailable for Obligation	874	11,824
Net Receivables from Invested Balances	(3,526,672)	(3,277,674)
Balances in Treasury Trust Fund	(1,115)	(7,975)
Obligated Balance not yet Disbursed	<u>1,574,347</u>	<u>1,743,013</u>
<b>Totals</b>	<b>\$ <u>106,247</u></b>	<b>\$ <u>62,631</u></b>

The funds available for obligation may be apportioned by OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations.

***Note S2. Cashout Advances, Superfund***

Cashout Advances are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response actions at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest-bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, states that take responsibility for the site, or other federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2010 and 2009, cashout advances are \$637 million and \$572 million, respectively.

**Note S3. Superfund State Credits**

Authorizing statutory language for Superfund and related federal regulations requires states to enter into SSCs when EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that it will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will provide EPA with a 10-percent cost share for remedial action costs incurred at privately owned or operated sites and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA-approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. Credit is limited to state site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-federal funds for remedial action.

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2010, the total remaining state credits were estimated at \$20.9 million. The estimated ending credit balance on September 30, 2009 was \$21.9 million.

**Note S4. Superfund Preauthorized Mixed Funding Agreements**

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2010, EPA had six outstanding preauthorized mixed funding agreements with obligations totaling \$15.6 million, and as of September 30, 2009, EPA had nine agreements with obligations totaling \$19.9 million. A liability is not recognized for these amounts until all work has been performed by the PRP and approved by EPA for payment. Furthermore, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

**Note S5. Income and Expenses from other Appropriations; General Support Services Charged to Superfund**

The Statement of Net Cost reports costs that represent the full costs of the program outputs. These costs consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During FYs 2010 and 2009, the EPM appropriation funded a variety of programmatic and nonprogrammatic activities across the Agency, subject to statutory requirements. This appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses. As illustrated below, this estimate does not impact the consolidated totals of the Statement of Net Cost or the Statement of Changes in Net Position.

	FY 2010			FY 2009		
	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect
Superfund	\$ 30,349	(30,349)	\$ -	\$ 130,931	(130,931)	\$ -
All Others	(30,349)	30,349	-	(130,931)	130,931	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

In addition, the related general support services costs allocated to the Superfund Trust Fund from the S&T and EPM funds are \$194,000 for FY 2010 and \$234,000 for FY 2009.

**Note S6. Reconciliation of the Statement of Budgetary Resources to the President's Budget**

Budgetary resources, obligations incurred, and outlays, as presented in the audited FY 2009 Statement of Budgetary Resources, will be reconciled to the amounts included in the Budget of the U.S. Government when they become available. The Budget, with actual numbers for FY 2010, has not yet been published. We expect it to be published by March 2011, and it will be available on the OMB website at [www.whitehouse.gov](http://www.whitehouse.gov). The actual amounts published for the year ended September 30, 2009, are included in EPA's FY 2009 financial statement disclosures.

FY 2009	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 3,847,709	\$ 2,242,345	\$ 1,244,694	\$ 1,350,036
Rounding Differences**	(709)	(345)	(694)	(36)
<b>Reported in Budget of the U. S. Government</b>	<b>\$ 3,847,000</b>	<b>\$ 2,242,000</b>	<b>\$ 1,244,000</b>	<b>\$ 1,350,000</b>

\*

Balances are rounded to millions in the Budget Appendix.

<b>Note S7. Superfund Eliminations</b>
--

The Superfund Trust Fund has intra-agency activities with other EPA funds, which are eliminated on the consolidated Balance Sheet and the Statement of Net Cost. These are listed below:

	<b><u>FY 2010</u></b>	<b><u>FY 2009</u></b>
Advances	\$9,265	\$14,327
Expenditure Transfers Payable	\$25,555	\$25,189
Accrued Liabilities	\$2,214	\$2,991
Expenses	\$33,419	\$29,100
Transfers	\$38,016	\$54,392



U.S. ENVIRONMENTAL PROTECTION AGENCY  
OFFICE OF INSPECTOR GENERAL

*Catalyst for Improving the Environment*

## **Audit Report**

# **Audit of EPA's Fiscal 2010 and 2009 Consolidated Financial Statements**

**Report No. 11-1-0015**

**November 15, 2010**

## **Abbreviations**

CFC	Cincinnati Finance Center
EPA	U.S. Environmental Protection Agency
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act of 1982
GAO	U.S. Government Accountability Office
IFMS	Integrated Financial Management System
OIG	Office of Inspector General
OMB	Office of Management and Budget
RSSI	Required Supplementary Stewardship Information
SSC	Superfund State Contract
USAID	U.S. Agency for International Development
WCF	Working Capital Fund



# At a Glance

*Catalyst for Improving the Environment*

## Why We Did This Audit

We performed this audit in accordance with the Government Management Reform Act, which requires the U.S. Environmental Protection Agency (EPA) to prepare, and the Office of Inspector General to audit, the Agency's financial statements each year. Our primary objectives were to determine whether:

- EPA's consolidated financial statements were fairly stated in all material respects.
- EPA's internal controls over financial reporting were in place.
- EPA management complied with applicable laws and regulations.

## Background

The requirement for audited financial statements was enacted to help bring about improvements in agencies' financial management practices, systems, and controls so that timely, reliable information is available for managing federal programs.

For further information, contact our Office of Congressional, Public Affairs and Management at (202) 566-2391.

To view the full report, click on the following link:  
[www.epa.gov/oig/reports/2011/20101115-11-1-0015.pdf](http://www.epa.gov/oig/reports/2011/20101115-11-1-0015.pdf)

## Audit of EPA's Fiscal 2010 and 2009 Consolidated Financial Statements

### EPA Receives Unqualified Opinion

We rendered an unqualified opinion on EPA's Consolidated Financial Statements for fiscal 2010 and 2009, meaning that they were fairly presented and free of material misstatement.

### Internal Control Significant Deficiencies Noted

We noted the following four significant deficiencies:

- Further improvements are needed in reviewing the Superfund state contract unearned revenue spreadsheets.
- EPA should assess collectability of federal receivables and record allowances for doubtful accounts as needed.
- EPA needs to improve its controls for headquarters personal property.
- EPA needs to properly close the Fund Balance with Treasury when cancelling treasury symbols.

### Noncompliance With Laws and Regulations Noted

We noted one noncompliance issue involving EPA's need to continue efforts to reconcile intragovernmental transactions.

### Agency Comments and Office of Inspector General Evaluation

In a memorandum received on November 9, 2010, from the Chief Financial Officer, the Agency generally concurred with the issues raised and indicated it will take corrective actions. The Agency did not concur with two of our draft report recommendations. We have modified these recommendations to reflect information provided by the Chief Financial Officer in response to the draft report. The Agency's full response is included in Appendix II, and our analysis of the Agency's response is included in the body of the report.



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

THE INSPECTOR GENERAL

November 15, 2010

**MEMORANDUM**

**SUBJECT:** Audit of EPA's Fiscal 2010 and 2009 Consolidated Financial Statements  
Report No. 11-1-0015

**FROM:** Arthur A. Elkins, Jr.  
Inspector General

A handwritten signature in dark ink, appearing to read "Arthur A. Elkins, Jr.", is placed to the right of the "FROM:" line.

**TO:** Barbara J. Bennett  
Chief Financial Officer

Craig Hooks  
Assistant Administrator for Administration and Resources Management

Attached is our report on the U.S. Environmental Protection Agency's (EPA's) fiscal 2010 and 2009 consolidated financial statements. We are reporting four significant deficiencies. We also identified an instance of noncompliance with laws and regulations related to reporting intragovernmental transactions. Attachment 3 contains the status of recommendations related to the material weaknesses, significant deficiencies, and noncompliances with laws and regulations reported in prior years' reports. The significant deficiencies and noncompliances included in Attachment 3 also apply for fiscal 2010.

The estimated cost of this report—calculated by multiplying the project's staff days by the applicable daily full cost billing rates in effect at the time—is \$2,618,923.

This audit report represents the opinion of the Office of Inspector General, and the findings in this report do not necessarily represent the final EPA position. EPA managers, in accordance with established EPA audit resolution procedures, will make final determinations on the findings in this audit report. Accordingly, the findings described in this audit report are not binding upon EPA in any enforcement proceeding brought by EPA or the Department of Justice. We have no objections to the further release of this report to the public. This report will be available at <http://www.epa.gov/oig>.

In accordance with EPA Manual 2750, you are required to provide a written response to this report within 90 calendar days of the final report date. The response should address all issues and recommendations contained in Attachments 1 and 2. For corrective actions planned but not completed by the response date, reference to specific milestone dates will assist us in deciding



whether or not to close this report in our audit tracking system. Your response will be posted on the OIG's public website, along with our memorandum commenting on your response. Your response should be provided as an Adobe PDF file that complies with the accessibility requirements of section 508 of the Rehabilitation Act of 1973, as amended. The final response should not contain data that you do not want to be released to the public; if your response contains such data, you should identify the data for redaction or removal.

Should you or your staff have any questions about the report, please contact Melissa Heist, Assistant Inspector General for Audit, at (202) 566-0899; or Paul Curtis, Director, Financial Statement Audits, at (202) 566-2523.

Attachments

cc: See Appendix III, Distribution



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## **Inspector General's Report on EPA's Fiscal 2010 and 2009 Consolidated Financial Statements**

The Administrator  
U.S. Environmental Protection Agency

We have audited the consolidated balance sheet of the U.S. Environmental Protection Agency (EPA) as of September 30, 2010 and 2009, and the related consolidated statements of net cost, net cost by goal, changes in net position, and custodial activity; and the combined statement of budgetary resources for the years then ended. These financial statements are the responsibility of EPA's management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with generally accepted government auditing standards; the standards applicable to financial statements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements include expenses of grantees, contractors, and other federal agencies. Our audit work pertaining to these expenses included testing only within EPA. Audits of grants, contracts, and interagency agreements performed at a later date may disclose questioned costs of an amount undeterminable at this time. The U.S. Treasury collects and accounts for excise taxes that are deposited into the Superfund and Leaking Underground Storage Tank Trust Funds. The U.S. Treasury is also responsible for investing amounts not needed for current disbursements and transferring funds to EPA as authorized in legislation. Since the U.S. Treasury, and not EPA, is responsible for these activities, our audit work did not cover these activities.

The Office of Inspector General (OIG) is not independent with respect to amounts pertaining to OIG operations that are presented in the financial statements. The amounts included for the OIG are not material to EPA's financial statements. The OIG is organizationally independent with respect to all other aspects of the Agency's activities.

In our opinion, the consolidated financial statements present fairly, including the accompanying notes, in all material respects, the consolidated assets, liabilities, net position, net cost, net cost by goal, changes in net position, custodial activity, and combined budgetary resources of EPA as of and for the years ended September 30, 2010 and 2009, in conformity with accounting principles generally accepted in the United States of America.

## **Review of EPA's Required Supplementary Stewardship Information, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis**

We obtained information from EPA management about its methods for preparing Required Supplementary Stewardship Information (RSSI), Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis, and reviewed this information for consistency with the financial statements. The Supplemental Information includes the unaudited Superfund Trust Fund financial statements for fiscal 2010 and 2009, which are being presented for additional analysis and are not a required part of the basic financial statements. However, our audit was not designed to express an opinion and, accordingly, we do not express an opinion on EPA's RSSI, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

We did not identify any material inconsistencies between the information presented in EPA's consolidated financial statements and the information presented in EPA's RSSI, Required Supplementary Information, Supplemental Information, and Management's Discussion and Analysis.

## **Evaluation of Internal Controls**

As defined by OMB, internal control, as it relates to the financial statements, is a process, affected by the Agency's management and other personnel that is designed to provide reasonable assurance that the following objectives are met:

**Reliability of financial reporting**—Transactions are properly recorded, processed, and summarized to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

**Compliance with applicable laws, regulations, and government-wide policies**—Transactions are executed in accordance with laws governing the use of budget authority, government-wide policies, laws identified by OMB, and other laws and regulations that could have a direct and material effect on the financial statements.

In planning and performing our audit, we considered EPA's internal controls over financial reporting by obtaining an understanding of the Agency's internal controls, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls. We did this as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements and to comply with OMB audit guidance, not to express an opinion on internal control. Accordingly, we do not express an opinion on internal control over financial reporting nor on management's assertion on internal controls included in Management's Discussion and Analysis. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*. We did not test all internal

controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants, a significant deficiency is a deficiency, or combination of deficiencies, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We noted certain matters discussed below involving the internal control and its operation that we consider to be significant deficiencies, none of which are considered to be material weaknesses.

We noted four significant deficiencies, which are summarized below and detailed in Attachment 1.

### ***Further Improvements Needed in Reviewing the Superfund State Contract Unearned Revenue Spreadsheets***

Although the Cincinnati Finance Center (CFC) worked with the regions in fiscal 2010 to improve the accuracy of the Superfund state contract (SSC) unearned revenue accrual, further improvements are needed. CFC and the regions did not thoroughly review the SSC spreadsheets and detect data errors that we found during our test work. The Chief Financial Officers Act requires that the integrated agency accounting and financial management system include complete and reliable information. By not performing a thorough review, EPA misstated the unearned revenue accrual in the fiscal 2010 financial statements.

### ***EPA Should Assess Collectability of Federal Receivables and Record Any Needed Allowances for Doubtful Accounts***

EPA did not establish a federal allowance for doubtful accounts for receivables that were not billed timely and now may be uncollectible. Federal accounting standards require agencies to recognize receivables at their net realizable value. EPA considered federal debts to be fully collectible and did not have a policy to establish federal doubtful accounts until October 2010. By not timely reviewing debts, assessing the collectability of federal receivables, and establishing a federal allowance for doubtful accounts for uncollectible debt, EPA could be understating the uncollectible debt expense and overstating receivables in the financial statements.

### ***Improvements Needed in Controls for Headquarters Personal Property***

EPA headquarters could not account for certain personal property items in fiscal 2010 as required by EPA's *Personal Property and Procedures Manual*. The primary cause is that headquarters mid-level management is not knowledgeable about Agency property management procedures. Because EPA could not account for these property items, it is

not exercising proper control over \$2.5 million of accountable personal property. As of May 28, 2010, EPA headquarters could not account for 2,272 accountable personal property items. Through subsequent searches, the number of missing items as of September 30, 2010, fell to 1,134. EPA headquarters determined that the acquisition cost of these missing items is \$2,543,360. This is the second consecutive year we have reported this problem. In fiscal 2009, EPA headquarters did not inventory 1,804 items with an acquisition value of \$6.3 million.

### ***EPA Improperly Closed Accounts When Cancelling Treasury Symbols***

EPA did not properly close the Fund Balance with Treasury when cancelling treasury symbols on September 30, 2010. *Treasury Financial Manual Bulletin No. 2009-04* states that agencies must cancel any remaining balances (whether obligated or unobligated) in the account being cancelled. Valid receivables and payables associated with the cancelled Treasury Appropriation Fund Symbol still need to be included for financial reporting. EPA advanced funds to its Working Capital Fund (WCF) in fiscal 2002 and 2003. The WCF billed against those advances for all but \$933,299. When the Treasury funds expired at the end of fiscal 2003, the WCF had not repaid the advance to the Environmental Program and Management Fund (treasury symbol 682/30108). The funds should have been repaid by the WCF when the funds originally expired. Subsequently, the treasury symbol 682/30108 became cancelled on September 30, 2010, and the advance still had not been repaid. EPA processed an entry to close out the treasury symbol, improperly expensing the advance as well as removing other liabilities. EPA stated that it followed its cancellation procedures and *Year End Closing Instructions*. The closing instructions state, "All open advances (GL 1400 account series) for appropriations being cancelled must be cleared by September 30." The instructions required EPA to remove any balance in an advance or liability account, and recognize expense and earned revenue in the current year. By doing so, EPA improperly eliminated advances and liabilities, and recognized current year expenditures and revenue.

Attachment 3 contains the status of issues reported in prior years' reports. The issues included in attachment 3 should be included in considering EPA's significant deficiencies for fiscal 2010. We reported less significant matters regarding internal controls in the form of position papers during the course of the audit. We will not issue a separate management letter.

### ***Comparison of EPA's FMFIA Report with Our Evaluation of Internal Controls***

OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*, requires us to compare material weaknesses disclosed during the audit with those material weaknesses reported in the Agency's FMFIA report that relate to the financial statements and identify material weaknesses disclosed by the audit that were not reported in the Agency's FMFIA report.

For financial statement audit and financial reporting purposes, OMB defines material weaknesses in internal control as a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

The Agency reported that no material weaknesses had been found in the design or operation of internal controls over financial reporting as of June 30, 2010. We did not identify any material weaknesses during the course of our audit. Details concerning our findings on significant deficiencies can be found in Attachment 1.

## **Tests of Compliance With Laws and Regulations**

EPA management is responsible for complying with laws and regulations applicable to the Agency. As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain other laws and regulations specified in OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements, as Amended September 23, 2009*. The OMB guidance requires that we evaluate compliance with federal financial management system requirements, including the requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to these provisions and did not test compliance with all laws and regulations applicable to EPA.

Providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion. A number of ongoing investigations involving EPA's grantees and contractors could disclose violations of laws and regulations, but a determination about these cases has not been made.

### ***EPA Should Continue Efforts to Reconcile Intragovernmental Transactions***

As of September 30, 2010, EPA reported \$378 million in unreconciled differences with 48 trading partners for intragovernmental transactions. Of that amount, \$271 million was reported by Treasury to be material differences. The remaining \$107 million represents amounts reported for nonverifying agencies, accruals, timing differences, and other agencies whose differences were not reported as material. According to the *Treasury Financial Manual*, verifying agencies are those that are required to report in the Governmentwide Financial Report System. These include the 24 major Chief Financial Officers Act agencies and 11 other agencies material to the *Financial Report of the United States Government*. Any agency not required is a nonverifying agency. Treasury policy requires verifying agencies to confirm and reconcile intragovernmental transactions with their trading partners. Based on our review of correspondence with other agencies, EPA had difficulty reconciling these differences primarily because of differing accounting treatments and accrual methodologies among federal agencies, and because of a large reporting error made by one of EPA's trading partners. EPA's inability to reconcile its intragovernmental transactions contributes to a long-standing government-wide problem that hinders the ability of the U.S. Government Accountability Office to (GAO) render an opinion on the Consolidated Financial Statements of the Federal Government. Further details on this noncompliance issue are in Attachment 2.



### ***Federal Financial Management Improvement Act Noncompliance***

Under FFMIA, we are required to report whether the Agency's financial management systems substantially comply with the federal financial management systems requirements, applicable federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet the FFMIA requirement, we performed tests of compliance with FFMIA section 803(a) requirements and used the OMB guidance, *Memorandum M-09-06, Implementation Guidance for the Federal Financial Management Improvement Act dated January 9, 2009*, for determining substantial noncompliance with FFMIA. The results of our tests did not disclose any instances in which the Agency's financial management systems did not substantially comply with FFMIA requirements.

No other significant matters involving compliance with laws and regulations came to our attention during the course of the audit. We will not be issuing a separate management letter.

Our audit work was also performed to meet the requirements in Title 42, U.S. Code, section 9611(k), with respect to the Hazardous Substance Superfund Trust Fund, to conduct an annual audit of payments, obligations, reimbursements, or other uses of the fund. The material weaknesses and significant deficiencies reported above also relate to Superfund.

### **Prior Audit Coverage**

During previous financial or financial-related audits, we reported weaknesses that impacted our audit objectives in the following areas:

- Billing costs and reconciling unearned revenue for Superfund state contracts
- Misstated uncollectible debt
- Headquarters property items not inventoried
- Deobligating unneeded funds
- Integrated Financial Management System User Account Management
- Physical access controls at the Las Vegas Finance Center
- Security planning for Customer Technology Solutions equipment
- Reconciling and reporting intragovernmental transactions
- Financial database security oversight
- Assessing automated application processing controls for the Integrated Financial Management System

Attachment 3, Status of Prior Audit Report Recommendations, summarizes the current status of corrective actions taken on prior audit report recommendations related to these issues.

## Agency Comments and OIG Evaluation

In a memorandum dated November 9, 2010, the Office of the Chief Financial Officer responded to our draft report.

The rationale for our conclusions and a summary of the Agency comments are included in the appropriate sections of this report, and the Agency's complete response is included as Appendix II to this report.

This report is intended solely for the information and use of the management of EPA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.



Paul C. Curtis  
Director, Financial Statement Audits  
Office of Inspector General  
U.S. Environmental Protection Agency  
November 15, 2010

# **Internal Control Significant Deficiencies**

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## **1 – Further Improvements Needed in Reviewing the Superfund State Contract Unearned Revenue Spreadsheets**

Although CFC worked with the regions in fiscal 2010 to improve the accuracy of the SSC unearned revenue accrual, further improvements are needed. CFC and the regions did not thoroughly review the SSC spreadsheets and detect data errors that we found during our test work. The Chief Financial Officers Act requires that the integrated agency accounting and financial management system include complete and reliable information. By not performing a thorough review, EPA misstated the unearned revenue accrual in the fiscal 2010 financial statements.

CFC uses the SSC spreadsheets to calculate earned and unearned revenue for SSCs and to prepare quarterly accounting entries to adjust for quarterly activity. EPA overstated its fiscal 2010 fourth quarter SSC unearned revenue accrual by \$3,630,833 and its unbilled costs by \$858,100. We found errors in the fiscal 2010 third and fourth quarter SSC spreadsheet data, including errors in state cost estimates, state cost shares, credits, billings, and disbursements. We also identified several sites with questionable data that will require EPA's followup.

During our third quarter testing, we reviewed a sample of 20 SSC sites with unearned revenue of \$13,546,608 from a universe of 480 sites totaling \$45,061,760. We found 10 sites with errors that understated account 2312, Unearned Advances Non-Federal, by \$375,338, and understated account 13PB, Unbilled SSC Work in Progress, by \$410,498. By statistical projection of the errors, the most likely net overstatement or understatement of unearned revenue would be \$5,650,742.

CFC corrected the 10 errors in the fourth quarter spreadsheet. The errors included:

- A site with SSC billings of \$255,186 that were not entered on the SSC spreadsheet.
- Nine sites with incorrect disbursement amounts in the Hazardous Substance Superfund appropriation, fund code "T," entered on the spreadsheets that understated the spreadsheet disbursements by \$4.6 million.

We also reviewed the data for all 480 sites on the spreadsheet for reasonableness. We identified 60 sites with (1) questionable data in credits, billings, or unearned revenue in excess of the state cost share; (2) no billings; and (3) no estimated site costs. Additionally, some of the 60 sites were closed sites with accrued unbilled costs. One site had a negative billing, and one site had negative credits and disbursements. The regions' responses to our questions indicated that the data for several sites were not current. For example, the regions did not always:

- Update the estimated site costs and state cost share for amended SSCs.
- Adjust the spreadsheet estimated costs and state cost share, credits, billings, and reimbursable disbursements for the effect of closed sites and refunds to the states.
- Use the correct transaction code for older refunds to properly reduce SSC billings.
- Transfer unused credits to other SSC sites when EPA completes the SSC work on a site.

From our analysis of the site data and the regions' responses, we identified 33 errors that overstated account 2312 by \$5,166,394 and account 13PB by \$1,753,032. CFC corrected 15 of the errors in the fourth quarter, leaving account 2312 overstated by \$3,630,833 and account 13PB overstated by \$858,100 at year-end. CFC stated that it will make the remaining corrections in the first quarter of fiscal 2011.

During fiscal 2010, CFC performed quarterly reviews of spreadsheet billings and disbursements to improve data accuracy. CFC also directed Superfund regional offices to verify that billings and disbursements in the spreadsheets were accurate and that closed sites were financially closed in the spreadsheets. However, CFC and the regions did not thoroughly review the SSC spreadsheet data to ensure that they were accurate prior to recording the accrual accounting entries in EPA's Integrated Financial Management System (IFMS). EPA should further improve the spreadsheet data accuracy.

FMFIA requires agencies to establish controls that reasonably assure that "revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports." The Chief Financial Officers Act also requires the Agency to include financial reporting and internal controls that provide complete, reliable, consistent, and timely information in the integrated agency accounting and financial management system. EPA should have adequate internal controls to ensure that it properly records accruals for the SSC unearned revenue.

## **Recommendations**

We recommend that the Office of the Chief Financial Officer:

1. Work with the regions to review prior years' fund code "T" disbursements data on the SSC spreadsheets.
2. Work with the regions to review the spreadsheet data for the estimated site costs, state cost share, credits, and billings.
3. Require regions to report to CFC the SSC site closeout amounts, including the final actual site costs separated by "T" and "TR1" disbursements, final state share, and the amount of refund paid or final billing.
4. Review the quarterly SSC spreadsheets to determine whether the site data are reasonable and the resulting site calculations are logical. Specifically, review the data for billings, credits, or unearned revenue in excess of state cost shares; no estimated site costs; no billings; reimbursable "TR1" expenses in excess of billings; and closed sites with accrued unbilled costs or unearned revenue.

## **Agency Comments and OIG Evaluation**

The Agency concurred with our findings and recommendations.

## **2 – EPA Should Assess Collectability of Federal Receivables and Record Any Needed Allowances for Doubtful Accounts**

EPA did not establish a federal allowance for doubtful accounts for receivables that were not billed timely and now may be uncollectible. Federal accounting standards require agencies to recognize receivables at their net realizable value. EPA considered federal debts to be fully collectible and until October 2010 did not have a policy to establish federal doubtful accounts. By not timely reviewing federal debts, assessing the collectability of federal receivables, and establishing a federal allowance for doubtful accounts for uncollectible debt, EPA could be understating the uncollectible debt expense and overstating receivables in the financial statements.

Historically, EPA did not establish allowances for delinquent federal debts because it considered all federal debts to be collectible. However, in October 2010, EPA issued a new policy to address delinquent federal receivables, Resources Management Directives System, 2540-12-P1, Intragovernmental Business Rules – Delinquent Federal Accounts Receivable. This policy states that CFC is responsible for managing federal receivables and exercising due diligence to collect amounts due to EPA from other federal agencies. Also, CFC is to conduct quarterly reviews of federal debt that is delinquent for a period of at least 3 years to determine whether to pursue collections efforts. The policy also states that if further collection efforts are not warranted, CFC should record an allowance for doubtful accounts in the accounting records. The debt is to be written off for those receivables deemed uncollectible.

As of September 2010, EPA's financial system had 45 open federal receivables totaling \$22.8 million that were past their due date. Of this amount, \$12.9 million represents 12 delinquent Superfund federal receivables established in February 1995 with the U.S. Department of Defense (Army) for the Twin City Army Ammunition Dump Site. Currently, EPA is working with OMB to obtain funding for the Twin Cities site for cleanup costs. The funding request of \$6.3 million is 49 percent of the total receivables for Twin Cities. According to EPA, the Department of Defense included the entire \$12.9 million in its books as a payable subsequent to September 30, 2010. As a result, EPA believes the entire receivable is now collectible. Because the receivable has been in doubt for so long and OMB has indicated that the funding request would be only \$6.3 million, we believe EPA should establish an allowance for doubtful accounts for the remaining balance of the receivable and write off the negotiated amount when collected.

Of the remaining 33 delinquent federal receivables, totaling \$9.8 million, we found that EPA did not timely bill or collect for 21 of the receivables totaling \$9.5 million. EPA billed three federal agencies after those agencies had already deobligated the funds. One agency noted that EPA took more than 2 years after the performance period ended to submit a bill. We also identified nine other receivables totaling \$8.7 million with which EPA had not taken adequate collection action. Another \$7,000 was rejected by the billed agency because the interagency agreement was closed and the billing charges were over 9 years old. Other reasons cited as impacting collection efforts include other agencies' lack of congressional appropriation authority, waiting for additional funds to be included in other agencies' appropriations, and costs billed that exceeded the authorized amount on a Military Interdepartmental Purchase Request.

Statement of Federal Financial Accounting Standards Number 1 states that an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value. Loss estimation should be based on (a) the debtor's ability to pay, (b) the debtor's payment record and willingness to pay, and (c) the probable recovery of amounts from secondary sources.

In light of EPA's newly issued policy and the age of some outstanding federal receivables, we believe EPA should determine the collectability of all delinquent federal receivables and record any necessary accounting entries in the financial system to ensure that receivables are properly stated in the financial statements.

### **Recommendations**

We recommend that the Office of the Chief Financial Officer require the Office of Financial Services to:

5. Establish a federal allowance for \$6.6 million, which remains on the Twin Cities site receivable, unless the Agency can obtain additional evidence from the Department of Defense that it intends to pay the debt.
6. Review collectability of open federal accounts receivables and establish an allowance and/or write-off.
7. Establish procedures to ensure that CFC timely bills federal agencies within their authorized appropriation period.

### **Agency Comments and OIG Evaluation**

The Agency considers the entire \$12.9 million receivable from the Department of Defense collectible because the Department of Defense recorded a liability and has sought funding to partially pay the liability. However, negotiations with OMB and the Department of Defense have led to a funding request of only \$6.3 million. Unless the Agency can provide additional evidence that the receivable is fully collectible, the Agency should establish an allowance for this receivable. The Agency concurred with our remaining findings and recommendations.

### **3 – Improvements Needed in Controls for Headquarters Personal Property**

EPA headquarters could not account for some personal property items in fiscal 2010 as required by EPA's *Personal Property and Procedures Manual*. The primary cause was that headquarters mid-level management is not knowledgeable about Agency property management procedures. Because EPA could not account for these property items, it was not exercising proper control over \$2.5 million of accountable personal property. As of May 28, 2010, EPA headquarters could not account for 2,272 accountable personal property items. Through subsequent searches, the number of missing items as of September 30, 2010, fell to 1,134. EPA headquarters determined that the acquisition cost of these missing items is \$2,543,360. This is the second consecutive year we have reported this problem. In fiscal 2009, EPA headquarters did not inventory 1,804 items with an acquisition value of \$6.3 million.

The Facilities Management Services Division is responsible for administering the EPA Personal Property Management Program. EPA defines accountable personal property "as non-expendable personal property with an acquisition cost of \$5,000 or greater, EPA-leased personal property, or property identified as a sensitive item." EPA's *Personal Property and Procedures Manual*, section 3.1.1, states that each accountable area's personal property record must be maintained in IFMS, thus providing all needed data for effective personal property management (e.g., location, procurement, utilization, and disposal). The 1,134 missing items indicate that accurate personal property records are not being maintained. Inaccurate personal property records compromise EPA's property control system and can lead to the loss or misappropriation of Agency assets.

#### **Recommendations**

We recommend that the Assistant Administrator for Administration and Resources Management require the Director, Facilities Management and Services Division, to:

8. Develop a management-level property management training course and require completion of the course by all EPA managers.
9. Adequately address and resolve the issue and determine why personal property items are missing.

#### **Agency Comments and OIG Evaluation**

The Agency concurred with our findings and recommendations and offered additional information.



## **4 – EPA Improperly Closed Accounts When Cancelling Treasury Symbols**

EPA did not properly close the Fund Balance with Treasury when cancelling treasury symbols on September 30, 2010. *Treasury Financial Manual Bulletin No. 2009-04* states that agencies must cancel any remaining balances (whether obligated or unobligated) in the account being cancelled. Valid receivables and payables associated with the cancelled Treasury Appropriation Fund Symbol still need to be included for financial reporting. EPA advanced funds to its WCF in fiscal 2002 and 2003. The WCF billed against those advances for all but \$933,299. When the Treasury funds expired at the end of fiscal 2003, the WCF had not repaid the advance to the Environmental Program and Management Fund (treasury symbol 682/30108). The funds should have been repaid by WCF when the funds originally expired. Subsequently, the treasury symbol 682/30108 became cancelled on September 30, 2010, and the advance still had not been repaid. EPA processed an entry to close out the treasury symbol, improperly expensing the advance as well as removing other liabilities. EPA stated that it followed its Cancellation Procedures and *Year End Closing Instructions*. The closing instructions state, “All open advances (GL 1400 account series) for appropriations being cancelled must be cleared by September 30.” The instructions required EPA to remove any balance in an advance or liability account, and recognize expense and earned revenue in the current year. By doing so, EPA improperly eliminated advances and liabilities, and recognized current year expenditures and revenue.

Treasury Financial Manual, Bulletin No. 2009-04 states:

Agencies must close appropriation accounts available for obligation during a definite period after the account's obligation availability ends. Cancel any remaining balances (whether obligated or unobligated) in the account. These balances are unavailable for obligation or expenditure . . . Assets purchased by an [Agency] are not relieved from financial reporting simply because budget authority is cancelled. Also, agencies may have payables for which funding is cancelled, but the liability is still valid and the agency needs to report these payables for financial reporting.

EPA's WCF is a revolving fund authorized by law to finance a cycle of operations in which the costs for goods or services provided are charged to the users. The WCF operates like a commercial business within EPA; internal and external customers pay for services received, thereby generating revenue. WCF customers determine their WCF service requirements and provide advance funding to WCF, which is drawn down as WCF incurs costs for services provided.

EPA's cancellation procedures state:

Once a seven-year period is lapsed, the fund is then cancelled. Cancelled funds can no longer disburse or collect money, nor can they adjust existing obligations (31 U.S.C. 1552(a), 1555). All remaining funds must be returned to the Treasury general fund, and any subsequent collections should go to a general funds receipt account.

EPA did not properly close two cancelling treasury symbols at the end of fiscal 2010. EPA improperly eliminated advances to its WCF of \$933,299, as well as other smaller advances and liabilities. EPA's WCF also improperly reduced its work-in-process account for the \$933,299 and the liability for the advance. Our review of the WCF work-in-process account indicates that there were no unbilled amounts still outstanding from fiscal 2002/2003. EPA followed its incorrect cancellation procedures, which require eliminating the cancelled funds by closing out all payable (except expenditure transfers payable), liability, and all advance accounts to expense accounts, and closing out unearned advance account to earned revenue accounts. EPA's Year End Closing Instructions state, "All open advance (GL 1400 account series) for appropriations being cancelled must be cleared by September 30." By following the cancelling procedures, EPA improperly eliminated those balances and enabled the WCF to retain and possibly use funds for services that were never rendered and should be returned to Treasury.

The procedures that EPA used to remove the balances from the cancelled funds in the advance or liability account and to recognize them as an expense or revenue in the current year caused various general ledger accounts to be misstated. Consequently, the financial statements were misstated, although not materially as a whole.

## **Recommendations**

We recommend that the Office of the Chief Financial Officer:

10. Research and refund to Treasury cancelled funds as necessary.
11. Revise its cancellation procedures for the elimination of the balances from the cancelled treasury symbols.
12. Make appropriate adjustments to properly reflect balances.

## **Agency Comments and OIG Evaluation**

The Agency responded that it found that the \$933,299 advance funds provided to the WCF for services were improperly reflected as drawn down from treasury symbol 683/40108 instead of 682/30108 and, therefore, does not believe the funds need to be returned to Treasury. The Agency recognized that an error occurred in reporting advance funds and it needs to make adjusting entries in fiscal 2011. The Agency was not able to fully support its claim in time for this report and, accordingly, we were not able to audit or determine the impact of the misposting on the treasury symbols involved. We revised our recommendation to suggest that the Agency research and refund cancelled funds as necessary. The Agency concurred with our remaining findings and recommendations.

**Attachment 2**

# **Compliance With Laws and Regulations**

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## 5 – EPA Should Continue Efforts to Reconcile Intragovernmental Transactions

As of September 30, 2010, EPA reported \$378 million in unreconciled differences with 48 trading partners for intragovernmental transactions. Of that amount, \$271 million was reported by Treasury to be material differences. The remaining \$107 million represents amounts reported for nonverifying agencies, accruals, timing differences, and other agencies whose differences were not reported as material. According to the *Treasury Financial Manual*, verifying agencies are those that are required to report in the Governmentwide Financial Report System. These include the 24 major Chief Financial Officers Act agencies and 11 other agencies material to the *Financial Report of the United States Government*. Any agency not required is a nonverifying agency. Treasury policy requires verifying agencies to confirm and reconcile intragovernmental transactions with their trading partners. Based on our review of correspondence with other agencies, EPA had difficulty reconciling these differences primarily because of differing accounting treatments and accrual methodologies among federal agencies, and because of a large reporting error made by one of EPA's trading partners. EPA's inability to reconcile its intragovernmental transactions contributes to a long-standing government-wide problem that hinders the ability of GAO to render an opinion on the Consolidated Financial Statements of the Federal Government.

Treasury's fiscal 2010 fourth quarter Intragovernmental Activity Detail Report and Material Differences Report showed the following material differences for EPA:

<u>Federal agency</u>	<u>Difference</u>	<u>Category of difference</u>
U.S. Department of the Treasury	\$ 30,285,230	Accounts Receivable/Payable
U.S. Department of Homeland Security	33,343,985	Buy/Sell Costs/Revenue
U.S. Agency for International Development	207,659,275	Buy/Sell Costs/Revenue
<b>Total</b>	<b>\$ 271,288,490</b>	

While the Agency has actively worked with its trading partners to reduce differences, differences continued to exist. The material differences reported with the U.S. Agency for International Development (USAID) were due to errors in reporting by USAID. USAID recognized the errors and stated that it would be making adjustments for these errors for the Government-wide Financial Report System closing package reporting. The difference with U.S. Department of Homeland Security stems mostly from activity related to timing differences in recording expenses related to working with the Coast Guard on the Gulf Oil spill. The Coast Guard has responded that it would adjust its expenses for the differences for the Government-wide Financial Report System closing package reporting. The remaining material difference with Treasury is due primarily to Treasury providing for an allowance on a \$22 million judgment fund liability that EPA reports as the full amount, and \$7.45 million for federal Superfund cost recovery settlements that Treasury will pay from the Judgment fund.

During fiscal 2010, EPA made significant efforts to reconcile its intragovernmental activity on a quarterly basis with its partners and has been able to identify the causes of material differences and work with other agencies to resolve them. However, unreconciled differences persist. According to GAO's *Auditor's Report on the Fiscal Year 2009 Financial Report of the U.S. Government*, the federal government's inability to adequately account for and reconcile

intragovernmental activity and balances between federal entities is a major impediment preventing GAO from rendering an opinion on the accrual-based consolidated financial statements of the federal government.

### **Recommendation**

We recommend that the Office of the Chief Financial Officer:

13. Continue efforts to reconcile EPA's intragovernmental transactions and make appropriate adjustments to comply with federal financial reporting requirements.

### **Agency Comments and OIG Evaluation**

The Agency concurred with our findings and recommendation.

## Status of Prior Audit Report Recommendations

EPA is continuing to strengthen its audit management to address audit followup issues and complete corrective actions expeditiously and effectively to improve environmental results. The Chief Financial Officer is the Agency followup official and is responsible for ensuring that corrective actions are implemented. During fiscal 2010, the Office of the Chief Financial Officer continued to conduct the onsite reviews of national and program offices, which it initiated in fiscal 2009. The reviews focus on offices' audit followup procedures and their use of the Management Audit Tracking System, or MATS. The reviews are designed to promote sound audit management; increase Agency awareness of, accountability for, and completion of unimplemented corrective actions; and ensure that audit followup data are accurate and complete. The Office of the Chief Financial Officer completed seven of these on-site reviews in fiscal 2010, including three regional offices and four national program offices. These reviews will be performed on an ongoing, rotating basis.

The Agency has continued to make progress in completing corrective actions from prior years. The status of issues from prior financial statement audits and other audits with findings and recommendations that could have a material effect on financial statements and have corrective actions in process are listed in the following tables.

Significant deficiencies – Corrective actions in process
<ul style="list-style-type: none"> <li> <b>Automated Application Processing Controls for IFMS</b>  EPA has taken additional steps to correct this open issue by undertaking a project to replace its core financial application. The new EPA Financial System is anticipated to "go live" in October 2012. We will continue to report a reportable condition concerning our inability to test application controls due to insufficient system documentation until the new system is implemented. </li> </ul>
<ul style="list-style-type: none"> <li> <b>EPA Needs to Strengthen Financial Database Security Oversight and Monitor Compliance (Report No. 2007-P-00017)</b>  EPA did not complete all corrective actions related to reviewing the effectiveness of its followup procedures and update the procedures accordingly. The critical patch reports being shared and monitored as a part of the process did not include all operating systems and databases used by the Agency. EPA also has neither implemented procedures to escalate critical patch issues to appropriate management for resolution nor agreed to a course of action for when offices must mitigate the identified vulnerability. EPA indicated that it plans to complete these remaining corrective actions by July 2011. </li> </ul>
<ul style="list-style-type: none"> <li> <b>EPA Needs to Improve Billing and Reconciling of Costs Under Superfund State Contracts</b>  During fiscal 2010, the Agency took corrective actions to reconcile SSC funds and credits in the general ledger to subsidiary accounts. EPA's corrective actions reduced the significance of the SSC internal control weakness from a material weakness to a significant deficiency. As described in Attachment 1, Significant Deficiencies, further improvements are needed in reviewing the SSC unearned revenue accrual spreadsheets. EPA still needs to work with regions to review spreadsheet data for prior years' fund code "T" disbursements, estimated site costs, state cost share, credits, and billings. EPA also needs to review the quarterly SSC accrual spreadsheet site data for reasonableness and require regions to report to the CFC the SSC site closeout amounts. </li> </ul>

Significant deficiencies – Corrective actions in process
<ul style="list-style-type: none"> <li> <b>EPA Misstated Uncollectible Debt and Other Related Accounts</b>  In fiscal 2009, we recommended that EPA review and update the accounting model for fiscal 2010. In response to our recommendation, EPA noted that it would review the impact of accounting entries, including standard vouchers for billing documents, provide account models as needed, and provide technical advice as appropriate. EPA did not change the model in 2010, which resulted in an improper credit balance in the uncollectible debt expense account. EPA should address the causes for the credit balance in the uncollectible debt expense account and update the accounting model. </li> </ul>
<ul style="list-style-type: none"> <li> <b>Headquarters Property Items Not Inventoried</b>  The Agency has not taken sufficient action to address the weakness we noted in the headquarters annual personal property inventory. As described in Attachment 1, Significant Deficiencies, EPA headquarters could not account for 1,134 personal property items in fiscal 2010. </li> </ul>
<ul style="list-style-type: none"> <li> <b>Unneeded Funds Not Deobligated Timely</b>  While the Agency made significant efforts to complete two corrective actions to address last year's finding recommendation, it did not finish implementing the actions. Specifically, the Agency has not implemented training to ensure the effectiveness of its new policy on unliquidated obligations. We identified \$1.4 million in inactive funds that are no longer needed and can be deobligated. </li> </ul>
<ul style="list-style-type: none"> <li> <b>Integrated Financial Management System User Account Management Needs Improvement</b>  EPA is making progress on completing the agreed-upon corrective actions. To date, EPA has updated its processes to require the security administrator to work with requesting officials to ensure users are given the appropriate system access. EPA also implemented detective controls to correct instances in which access rights did not match rights requested and to check the system for terminated personnel. EPA submitted a <i>Separation of Duties Policy and Procedure</i> for formal Agency approval. The recommendations associated with the implementation of these documents should remain open until they are implemented. EPA plans to complete actions to remove access rights for personnel with incompatible duties and implement a system control to prevent assignment of incompatible duties by December 30, 2010. EPA has not established milestone dates for when it will implement a policy to notify financial systems owners of transferred/terminated personnel or review reports of terminated employees to remove them from the finance systems due to potential changes needed in the Human Resources System that may affect this process. </li> </ul>
<ul style="list-style-type: none"> <li> <b>EPA Needs to Improve Physical Security at Its Offices in Las Vegas, Nevada (Report No. 10-P-0059)</b>  The Agency indicated that it is in the process of implementing the agreed-upon corrective actions associated with the recommendations in this report. The Agency's corrective action plan indicates that the final corrective action associated with this report will be completed by September 30, 2011. As a part of the agreed-upon corrective action plan, after all of the other corrective actions have been completed, EPA will conduct an assessment to ensure that the procedures are implemented and working as management intends by September 30, 2011. </li> </ul>
<ul style="list-style-type: none"> <li> <b>Improved Security Planning Needed for the Customer Technology Solutions Project (Report No. 10-P-0028)</b>  EPA indicated that it had not yet completed the corrective actions associated with this audit and is in the process of updating the associated corrective action plan. EPA has not provided a milestone date for when it plans to complete the corrective actions associated with this report's recommendations. </li> </ul>

Source: OIG analysis.

Compliance with laws and regulations – Corrective actions in process
<ul style="list-style-type: none"> <li> <b>EPA needs to improve reconciliation of differences with trading partners</b>  The Agency has actively worked with its trading partners to reduce unreconciled differences. However, as described in Attachment 2, EPA reported \$378 million in unreconciled differences for intragovernmental transactions with 48 trading partners. </li> </ul>

Source: OIG analysis.

## Attachment 4

## Status of Current Recommendations and Potential Monetary Benefits

RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
1	10	Work with the regions to review prior years' fund code "T" disbursements data on the SSC spreadsheets.		Office of the Chief Financial Officer			
2	10	Work with the regions to review the spreadsheet data for the estimated site costs, state cost share, credits, and billings.		Office of the Chief Financial Officer			
3	10	Require regions to report to CFC the SSC site closeout amounts, including the final actual site costs separated by "T" and "TR1" disbursements, final state share, and the amount of refund paid or final billing.		Office of the Chief Financial Officer			
4	10	Review the quarterly SSC spreadsheets to determine whether the site data are reasonable and the resulting site calculations are logical. Specifically, review the data for billings, credits, or unearned revenue in excess of state cost shares; no estimated site costs; no billings; reimbursable "TR1" expenses in excess of billings; and closed sites with accrued unbilled costs or unearned revenue.		Office of the Chief Financial Officer			
5	12	Require the Office of Financial Services to establish a federal allowance for \$6.6 million, which remains on the Twin Cities site receivable, unless the Agency can obtain additional evidence from the Department of Defense that it intends to pay the debt.		Office of the Chief Financial Officer			
6	12	Require the Office of Financial Services to review collectability of open federal accounts receivables and establish an allowance and/or write-off.		Office of the Chief Financial Officer			
7	12	Require the Office of Financial Services to establish procedures to ensure that CFC timely bills federal agencies within their authorized appropriation period.		Office of the Chief Financial Officer			
8	13	Require the Director, Facilities Management and Services Division, to develop a management-level property management training course and require completion of the course by all EPA managers.		Assistant Administrator for Administration and Resources Management			
9	13	Require the Director, Facilities Management and Services Division, to adequately address and resolve the issue and determine why personal property items are missing.		Assistant Administrator for Administration and Resources Management			
10	15	Research and refund to Treasury cancelled funds as necessary.		Office of the Chief Financial Officer			



RECOMMENDATIONS						POTENTIAL MONETARY BENEFITS (in \$000s)	
Rec. No.	Page No.	Subject	Status <sup>1</sup>	Action Official	Planned Completion Date	Claimed Amount	Agreed To Amount
11	15	Revise its cancellation procedures for the elimination of the balances from the cancelled treasury symbols.		Office of the Chief Financial Officer			
12	15	Make appropriate adjustments to properly reflect balances.		Office of the Chief Financial Officer			
13	18	Continue efforts to reconcile EPA's intragovernmental transactions and make appropriate adjustments to comply with federal financial reporting requirements.		Office of the Chief Financial Officer			
<b>Note:</b> We identified \$1.4 million in inactive funds that are no longer needed and can be deobligated.						\$1,400.0	

<sup>1</sup> O = recommendation is open with agreed-to corrective actions pending  
C = recommendation is closed with all agreed-to actions completed  
U = recommendation is undecided with resolution efforts in progress

**Appendix I**

**EPA's Fiscal 2010 and 2009  
Consolidated Financial Statements**

**SECTION II  
FINANCIAL SECTION**

## **Principal Financial Statements**

### **Financial Statements**

1. Consolidated Balance Sheet
2. Consolidated Statement of Net Cost
3. Consolidated Statement of Net Cost by Goal
4. Consolidating Statement of Changes in Net Position
5. Combined Statement of Budgetary Resources
6. Statement of Custodial Activity

### **Notes to Financial Statements**

- |          |  |
|----------|--|
| Note 1.  | Summary of Significant Accounting Policies                               |
| Note 2.  | Fund Balance with Treasury (FBWT)  |
| Note 3.  | Cash and Other Monetary Assets   |
| Note 4.  | Investments  |
| Note 5.  | Accounts Receivable, Net   |
| Note 6.  | Other Assets   |
| Note 7.  | Loans Receivable, Net  |
| Note 8.  | Accounts Payable and Accrued Liabilities                                 |
| Note 9.  | General Property, Plant and Equipment (PP& E)                            |
| Note 10. | Debt Due to Treasury   |
| Note 11. | Stewardship Land   |
| Note 12. | Custodial Liability  |
| Note 13. | Other Liabilities  |
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| Note 15. | FECA Actuarial Liabilities   |
| Note 16. | Cashout Advances, Superfund  |
| Note 17. | Unexpended Appropriations – Other Funds                                  |
| Note 18. | Commitments and Contingencies  |
| Note 19. | Earmarked Funds  |
| Note 20. | Exchange Revenues, Statement of Net Cost                                 |
| Note 21. | Intragovernmental Costs and Exchange Revenue                             |
| Note 22. | Cost of Stewardship Land   |
| Note 23. | Environmental Cleanup Costs  |
| Note 24. | State Credits  |
| Note 25. | Preauthorized Mixed Funding Agreements                                   |
| Note 26. | Custodial Revenues and Accounts Receivable                               |
| Note 27. | Reconciliation of President's Budget to Statement of Budgetary Resources |

**Notes to Financial Statements (continued)**

- Note 28. Recoveries and Resources Not Available, Statement of Budgetary Resources
- Note 29. Unobligated Balances Available
- Note 30. Undelivered Orders at the End of the Period
- Note 31. Offsetting Receipts
- Note 32. Transfers-In and Out, Statement of Changes in Net Position
- Note 33. Imputed Financing
- Note 34. Payroll and Benefits Payable
- Note 35. Other Adjustments, Statement of Changes in Net Position
- Note 36. Non-exchange Revenue, Statement of Changes in Net Position
- Note 37. Reconciliation of Net Cost of Operations to Budget
- Note 38. Amounts Held By Treasury (Unaudited)
- Note 39. 2004 Antideficiency Act Violation Reported in 2010

**Required Supplementary Information (Unaudited)**

- 1. Deferred Maintenance
- 2. Stewardship Land
- 3. Supplemental Statement of Budgetary Resources

**Required Supplementary Stewardship Information (Unaudited)****Supplemental Information and Other Reporting Requirements (Unaudited)**

Superfund Financial Statements and Related Notes

**Environmental Protection Agency**  
**Consolidated Balance Sheets**  
**As of September 30, 2010 and 2009**  
**(Dollars in Thousands)**

		FY 2010	FY 2009
ASSETS			
Intragovernmental:			
Fund Balance With Treasury (Note 2)	\$	14,603,024	\$ 15,557,917
Investments (Note 4)		7,243,613	6,879,948
Accounts Receivable, Net (Note 5)		45,698	39,362
Other (Note 6)		223,296	214,831
Total Intragovernmental	\$	22,115,631	\$ 22,692,058
Cash and Other Monetary Assets (Note 3)		10	10
Accounts Receivable, Net (Note 5)		417,535	817,844
Loans Receivable, Net - Non-Federal (Note 7)		5,254	11,645
Property, Plant & Equipment, Net (Note 9)		915,121	852,488
Other (Note 6)		2,834	2,228
Total Assets	\$	23,456,385	\$ 24,376,273
Stewardship PP& E (Note 11 )			
LIABILITIES			
Intragovernmental:			
Accounts Payable and Accrued Liabilities (Note 8)		51,325	76,054
Debt Due to Treasury (Note 10)		4,844	9,983
Custodial Liability (Note 12)		52,751	71,200
Other (Note 13)		132,286	140,645
Total Intragovernmental	\$	241,206	\$ 297,882
Accounts Payable & Accrued Liabilities (Note 8)	\$	1,031,448	\$ 865,764
Pensions & Other Actuarial Liabilities (Note 15)		44,938	44,122
Environmental Cleanup Costs (Note 23)		20,154	19,494
Cashout Advances, Superfund (Note 16)		636,673	572,412
Commitments & Contingencies (Note 18)		4,373	4,573
Payroll & Benefits Payable (Note 34)		264,975	250,617
Other (Note 13)		99,996	115,918
Total Liabilities	\$	2,343,763	\$ 2,170,782
NET POSITION			
Unexpended Appropriations - Other Funds (Note 17)		13,342,784	14,536,347
Cumulative Results of Operations - Earmarked Funds (Note 19)		7,152,382	7,086,476
Cumulative Results of Operations - Other Funds		617,456	582,668
Total Net Position		21,112,622	22,205,491
Total Liabilities and Net Position	\$	23,456,385	\$ 24,376,273

**The accompanying notes are an integral part of these financial statements.**

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**Environmental Protection Agency  
Consolidated Statements of Net Cost  
For the Periods Ending September 30, 2010 and 2009  
(Dollars in Thousands)**

					<b>FY 2010</b>		<b>FY 2009</b>
<b>COSTS</b>							
	Gross Costs (Note 21)			\$	12,406,265	\$	8,920,963
	Less:						
	Earned Revenue (Notes 20, 21)				693,484		773,612
	<b>NET COST OF OPERATIONS (Note 21)</b>			<b>\$</b>	<b>11,712,781</b>	<b>\$</b>	<b>8,147,351</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency  
Consolidated Statements of Net Cost by Goal  
For the Period Ending September 30, 2010  
(Dollars in Thousands)**

	<b>Clean Air</b>	<b>Clean &amp; Safe Water</b>	<b>Land Preservation &amp; Restoration</b>	<b>Healthy Communities &amp; Ecosystems</b>	<b>Compliance &amp; Environmental Stewardship</b>
<b>Costs:</b>					
Intragovernmental	\$ 170,677	\$ 193,456	\$ 342,734	\$ 293,850	\$ 182,299
With the Public	1,048,124	6,197,330	2,096,211	1,265,653	615,931
Total Costs (Note 21)	1,218,801	6,390,786	2,438,945	1,559,503	798,230
Less:					
Earned Revenue, Federal	18,923	2,803	103,687	64,034	3,400
Earned Revenue, non Federal	5,906	2,524	446,569	44,144	1,494
Total Earned Revenue (Notes 20,21)	24,829	5,327	550,256	108,178	4,894
<b>NET COST OF OPERATIONS (Note 21)</b>	<b>\$ 1,193,972</b>	<b>\$ 6,385,459</b>	<b>\$ 1,888,689</b>	<b>\$ 1,451,325</b>	<b>\$ 793,336</b>
	<b>Consolidated Totals</b>				
<b>Costs:</b>					
Intragovernmental	\$ 1,183,016				
With the Public	\$ 11,223,249				
Total Costs (Note 21)	12,406,265				
Less:					
Earned Revenue, Federal	\$ 192,847				
Earned Revenue, non Federal	\$ 500,637				
Total Earned Revenue (Notes 20,21)	693,484				
<b>NET COST OF OPERATIONS (Note 21)</b>	<b>\$ 11,712,781</b>				

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency  
Consolidated Statements of Net Cost by Goal  
For the Period Ending September 30, 2009  
(Dollars in Thousands)**

	<u>Clean Air</u>	<u>Clean &amp; Safe Water</u>	<u>Land Preservation &amp; Restoration</u>	<u>Healthy Communities &amp; Ecosystems</u>	<u>Compliance &amp; Environmental Stewardship</u>
<b>Costs:</b>					
Intragovernmental	\$ 187,484	\$ 191,558	\$ 386,549	\$ 271,028	\$ 207,660
With the Public	874,787	3,236,903	1,821,301	1,134,155	609,538
Total Costs (Note 21)	<u>1,062,271</u>	<u>3,428,461</u>	<u>2,207,850</u>	<u>1,405,183</u>	<u>817,198</u>
<b>Less:</b>					
Earned Revenue, Federal	15,455	4,758	101,767	20,047	4,071
Earned Revenue, non Federal	<u>3,036</u>	<u>3,208</u>	<u>580,119</u>	<u>42,267</u>	<u>(1,116)</u>
Total Earned Revenue (Notes 20, 21)	<u>18,491</u>	<u>7,966</u>	<u>681,886</u>	<u>62,314</u>	<u>2,955</u>
<b>NET COST OF OPERATIONS (Note 21)</b>	<b><u>\$ 1,043,780</u></b>	<b><u>\$ 3,420,495</u></b>	<b><u>\$ 1,525,964</u></b>	<b><u>\$ 1,342,869</u></b>	<b><u>\$ 814,243</u></b>
	<b><u>Consolidated Totals</u></b>				
<b>Costs:</b>					
Intragovernmental	\$ 1,244,279				
With the Public	<u>\$ 7,676,684</u>				
Total Costs	<u>8,920,963</u>				
<b>Less:</b>					
Earned Revenue, Federal	\$ 146,098				
Earned Revenue, non Federal	<u>\$ 627,514</u>				
Total Earned Revenue (Notes 20, 21)	<u>773,612</u>				
<b>NET COST OF OPERATIONS (Note 21)</b>	<b><u>\$ 8,147,351</u></b>				

**The accompanying notes are an integral part of these financial statements.**



**Environmental Protection Agency  
Consolidating Statements of Changes in Net Position  
For the Period Ending September 30, 2010  
(Dollars in Thousands)**

			<b>FY 2010 Earmarked Funds</b>	<b>FY 2010 All Other Funds</b>	<b>FY 2010 Consolidated Total</b>
<b>Cumulative Results of Operations:</b>					
<b>Net Position - Beginning of Period</b>					
Beginning Balances, as Adjusted	\$		7,086,476	582,668	7,669,144
			7,086,476	\$ 582,668	\$ 7,669,144
<b>Budgetary Financing Sources:</b>					
Appropriations Used			-	11,294,823	11,294,823
Nonexchange Revenue - Securities Investment (Note 36)			130,504	-	130,504
Nonexchange Revenue - Other (Note 36)			213,984	-	213,984
Transfers In/Out (Note 32)			(20,789)	33,859	13,070
Trust Fund Appropriations			1,280,570	(1,280,570)	-
Total Budgetary Financing Sources	\$		1,604,269	\$ 10,048,112	\$ 11,652,381
<b>Other Financing Sources (Non-Exchange)</b>					
Transfers In/Out (Note 32)			-	(546)	(546)
Imputed Financing Sources (Note 33)			27,022	134,618	161,640
Total Other Financing Sources	\$		27,022	\$ 134,072	\$ 161,094
Net Cost of Operations			(1,565,385)	(10,147,396)	(11,712,781)
Net Change			65,906	34,788	100,694
<b>Cumulative Results of Operations</b>	<b>\$</b>		<b>7,152,382</b>	<b>\$ 617,456</b>	<b>\$ 7,769,838</b>
			<b>FY 2010 Earmarked Funds</b>	<b>FY 2010 All Other Funds</b>	<b>FY 2010 Consolidated Total</b>
<b>Unexpended Appropriations:</b>					
<b>Net Position - Beginning of Period</b>					
Beginning Balances, as Adjusted			-	14,536,347	14,536,347
			-	14,536,347	14,536,347
<b>Budgetary Financing Sources:</b>					
Appropriations Received			-	10,182,421	10,182,421
Appropriations Transferred In/Out (Note 32)			-	(17,000)	(17,000)
Other Adjustments (Note 35)			-	(65,989)	(65,989)
Appropriations Used			-	(11,292,995)	(11,292,995)
Total Budgetary Financing Sources			-	(1,193,563)	(1,193,563)
<b>Total Unexpended Appropriations</b>			-	13,342,784	13,342,784
<b>TOTAL NET POSITION</b>	<b>\$</b>		<b>7,152,382</b>	<b>\$ 13,960,240</b>	<b>\$ 21,112,622</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Consolidating Statements of Changes in Net Position**  
**For the Periods Ending September 30, 2009**  
**(Dollars in Thousands)**

		<b>FY 2009 Earmarked Funds</b>	<b>FY 2009 All Other Funds</b>	<b>FY 2009 Consolidated Total</b>
<b>Cumulative Results of Operations:</b>				
<b>Net Position - Beginning of Period</b>		6,160,531	555,766	6,716,297
Beginning Balances, as Adjusted	\$	6,160,531	\$ 555,766	\$ 6,716,297
<b>Budgetary Financing Sources:</b>				
Appropriations Used		-	8,504,157	8,504,157
Nonexchange Revenue - Securities Investment (Note 36)		176,168	-	176,168
Nonexchange Revenue - Other (Note 36)		188,245	-	188,245
Transfers In/Out (Note 32)		(39,705)	57,392	17,687
Trust Fund Appropriations		1,747,911	(1,747,911)	-
Total Budgetary Financing Sources	\$	2,072,619	\$ 6,813,638	\$ 8,886,257
<b>Other Financing Sources (Non-Exchange)</b>				
Transfers In/Out (Note 32)		(84)	694	610
Imputed Financing Sources (Note 33)		28,975	184,356	213,331
Total Other Financing Sources	\$	28,891	\$ 185,050	\$ 213,941
Net Cost of Operations		(1,175,565)	(6,971,786)	(8,147,351)
Net Change		925,945	26,902	952,847
<b>Cumulative Results of Operations</b>	\$	<b>7,086,476</b>	\$ <b>582,668</b>	\$ <b>7,669,144</b>
<b>Unexpended Appropriations:</b>				
<b>Net Position - Beginning of Period</b>		-	8,674,710	8,674,710
Beginning Balances, as Adjusted	\$	-	\$ 8,674,710	\$ 8,674,710
<b>Budgetary Financing Sources:</b>				
Appropriations Received			14,406,298	14,406,298
Appropriations Transferred In/Out (Note 32)			(10,953)	(10,953)
Other Adjustments (Note 35)			(29,551)	(29,551)
Appropriations Used			(8,504,157)	(8,504,157)
Total Budgetary Financing Sources		-	5,861,637	5,861,637
<b>Total Unexpended Appropriations</b>		-	14,536,347	14,536,347
<b>TOTAL NET POSITION</b>	\$	<b>7,086,476</b>	\$ <b>15,119,015</b>	\$ <b>22,205,491</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency  
Combined Statements of Budgetary Resources  
For the Periods Ending September 30, 2010 and 2009  
(Dollars in Thousands)**

		<b>FY 2010</b>	<b>FY 2009</b>
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance, Brought Forward, October 1:	\$	3,703,022	\$ 3,551,880
Adjusted Subtotal		3,703,022	3,551,880
Recoveries of Prior Year Unpaid Obligations (Note 28)		277,771	220,329
Budgetary Authority:			
Appropriation		10,256,166	15,276,374
Borrowing Authority		52	5
Spending Authority from Offsetting Collections			
Earned:			
Collected		918,786	631,378
Change in Receivables from Federal Sources		(1,746)	2,884
Change in Unfilled Customer Orders:			
Advance Received		234,559	29,183
Without Advance from Federal Sources		(132,489)	(93,701)
Anticipated for Rest of Year, Without Advances		0	-
Previously Unavailable		-	-
Expenditure Transfers from Trust Funds		36,809	57,392
Total Spending Authority from Offsetting Collections		1,055,919	627,136
Nonexpenditure Transfers, Net, Anticipated and Actual (Note 32)		1,369,345	1,371,077
Temporarily Not Available Pursuant to Public Law (Note 28)		(11,800)	-
Permanently Not Available (Note 28)		(73,453)	(32,732)
<b>Total Budgetary Resources (Note 27)</b>	<b>\$</b>	<b>16,577,022</b>	<b>\$ 21,014,069</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$	11,260,452	\$ 16,740,272
Reimbursable		690,229	570,775
Total Obligations Incurred (Note 27)		11,950,681	17,311,047
Unobligated Balances:			
Apportioned (Note 29)		4,430,813	3,440,829
Exempt from Apportionment		-	-
Total Unobligated Balances		4,430,813	3,440,829
Unobligated Balances Not Available (Note 29)		195,528	262,193
<b>Total Status of Budgetary Resources</b>	<b>\$</b>	<b>16,577,022</b>	<b>\$ 21,014,069</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency  
Combined Statements of Budgetary Resources  
For the Periods Ending September 30, 2010 and 2009  
(Dollars in Thousands)**

		<b>FY 2010</b>	<b>FY 2009</b>
<b>CHANGE IN OBLIGATED BALANCE</b>			
Obligated Balance, Net:			
Unpaid Obligations, Brought Forward, October 1	\$	15,788,389	\$ 9,368,094
Adjusted Total		15,788,389	9,368,094
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1		(573,824)	(666,246)
Total Unpaid Obligated Balance, Net		15,214,565	8,701,848
Obligations Incurred, Net (Note 27)		11,950,681	17,311,047
Less: Gross Outlays (Note 27)		(13,588,391)	(10,670,422)
Obligated Balance Transferred, Net:			
Actual Transfers, Unpaid Obligations		-	-
Actual Transfers, Uncollected Customer Payments from Federal		-	-
Total Unpaid Obligated Balance Transferred, Net		-	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual (Note 28)		(277,771)	(220,329)
Change in Uncollected Customer Payments from Federal Sources		133,869	92,421
Total, Change in Obligated Balance		13,432,953	15,214,565
Obligated Balance, Net, End of Period:			
Unpaid Obligations		13,872,909	15,788,389
Less: Uncollected Customer Payments from Federal Sources		(439,956)	(573,824)
Total, Unpaid Obligated Balance, Net, End of Period	\$	13,432,953	\$ 15,214,565
<b>NET OUTLAYS</b>			
Net Outlays:			
Gross Outlays (Note 27)	\$	13,588,391	\$ 10,670,422
Less: Offsetting Collections (Note 27)		(1,189,788)	(719,558)
Less: Distributed Offsetting Receipts (Notes 27 and 31)		(1,402,960)	(1,884,134)
<b>Total, Net Outlays</b>	\$	<b>10,995,643</b>	\$ <b>8,066,730</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Statements of Custodial Activity**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**

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**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency  
Notes to the Financial Statements  
Fiscal Year Ended September 30, 2010 and 2009  
(Dollars in Thousands)**

<b><i>Note 1. Summary of Significant Accounting Policies</i></b>
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**A. Reporting Entities**

The EPA was created in 1970 by executive reorganization from various components of other federal agencies to better marshal and coordinate federal pollution control efforts. The Agency is generally organized around the media and substances it regulates - air, water, land, hazardous waste, pesticides, and toxic substances.

The FY 2010 financial statements are presented on a consolidated basis for the Balance Sheet, Statements of Net Cost, Changes in Net Position and Custodial Activity and a combined basis for the Statement of Budgetary Resources. These financial statements include the accounts of all funds described in this note by their respective Treasury fund group.

**B. Basis of Presentation**

These accompanying financial statements have been prepared to report the financial position and results of operations of the U. S. Environmental Protection Agency (EPA or Agency) as required by the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The reports have been prepared from the financial system and records of the Agency in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and the EPA accounting policies, which are summarized in this note. The Statement of Net Cost has been prepared with cost segregated by the Agency's strategic goals.

**1. General Fund Appropriations (Treasury Fund Groups 0000 – 3999)**

- a. State and Tribal Assistance Grants (STAG) Appropriation:*** The STAG appropriation, Treasury fund group 0103, provides funds for environmental programs and infrastructure assistance including capitalization grants for State revolving funds and performance partnership grants. Environmental programs and infrastructure supported are: Clean and Safe Water; capitalization grants for the Drinking Water State Revolving Funds; Clean Air; direct grants for Water and Wastewater Infrastructure needs, partnership grants to meet Health Standards, Protect Watersheds, Decrease Wetland Loss, and Address Agricultural and Urban Runoff and Storm Water; Better Waste Management; Preventing Pollution and

Reducing Risk in Communities, Homes, Workplaces and Ecosystems; and Reduction of Global and Cross Border Environmental Risks.

- b. *Science and Technology (S&T) Appropriation:*** The S&T appropriation, Treasury fund group 0107, finances salaries, travel, science, technology, research and development activities, including laboratory supplies, certain operating expenses, grants, contracts, intergovernmental agreements, and purchases of scientific equipment. These activities provide the scientific basis for the Agency's regulatory actions. In FY 2010, Superfund research costs were appropriated in Superfund and transferred to S&T to allow for proper accounting of the costs. Environmental scientific and technological activities and programs include Clean Air; Clean and Safe Water; Americans Right to Know about Their Environment; Better Waste Management; Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces, and Ecosystems; and Safe Food.
- c. *Environmental Programs and Management (EPM) Appropriation:*** The EPM appropriation, Treasury fund group 0108, includes funds for salaries, travel, contracts, grants, and cooperative agreements for pollution abatement, control, and compliance activities and administrative activities of the Agency's operating programs. Areas supported from this appropriation include: Clean Air, Clean and Safe Water, Land Preservation and Restoration, Healthy Communities and Ecosystems, and Compliance and Environmental Stewardship.
- d. *Buildings and Facilities Appropriation (B&F):*** The B&F appropriation, Treasury fund group 0110, provides for the construction, repair, improvement, extension, alteration, and purchase of fixed equipment or facilities that are owned or used by the EPA.
- e. *Office of Inspector General (OIG) Appropriation:*** The OIG appropriation, Treasury fund group 0112, provides funds for audit and investigative functions to identify and recommend corrective actions on management and administrative deficiencies that create the conditions for existing or potential instances of fraud, waste and mismanagement. Additional funds for audit and investigative activities associated with the Superfund and the LUST Trust Funds are appropriated under those Trust Fund accounts and transferred to the Office of Inspector General account. The audit function provides contract, internal controls and performance, and financial and grant audit services. The appropriation includes expenses incurred and reimbursed from the appropriated trust funds accounted for under Treasury fund group 8145 and 8153.
- f. *Payments to the Hazardous Substance Superfund Appropriation:*** The Payment to the Hazardous Substance Superfund appropriation, Treasury fund group 0250, authorizes appropriations from the General Fund of the Treasury to finance activities conducted through the Hazardous Substance Superfund Program.

- g. *Payments to Leaking Underground Storage Tank Appropriation:*** The Payment to the Leaking Underground Storage Tank appropriation, Treasury fund group 0251, authorizes appropriations from the General Fund of the Treasury to finance activities conducted through the Leaking Underground Storage Tank program.
- h. *Asbestos Loan Program:*** The Asbestos Loan Program is accounted for under Treasury fund group 0118, Program Account, for interest subsidy and administrative support; under Treasury fund group 4322, Financing Account, for loan disbursements, loans receivable and loan collections on post-FY 1991 loans. *The Asbestos Loan Program* was authorized by the Asbestos School Hazard Abatement Act of 1986 to finance control of asbestos building materials in schools. The Program Account 0118 disburses the subsidy to the Financing Fund for increases in the subsidy. The Financing Account 4322 receives the subsidy payment, borrows from Treasury and collects the asbestos loans.
- i. *Allocations and Appropriations Transferred to the Agency:*** The EPA receives allocations or appropriations transferred from other federal agencies.
- j. *Treasury Clearing Accounts:*** The EPA Department of the Treasury Clearing Accounts include: (1) the Budgetary Suspense Account, (2) the Unavailable Check Cancellations and Overpayments Account, and (3) the Undistributed Intra-agency Payments and Collections (IPAC) Account. These are accounted for under Treasury fund groups 3875, 3880 and 3885, respectively.
- k. *General Fund Receipt Accounts:*** General Fund Receipt Accounts include: Hazardous Waste Permits; Miscellaneous Fines, Penalties and Forfeitures; General Fund Interest; Interest from Credit Reform Financing Accounts; Downward Re-estimates of Subsidies; Fees and Other Charges for Administrative and Professional Services; Miscellaneous Recoveries and Refunds and Proceeds of Sales, Personal Property. These accounts are accounted for under Treasury fund groups 0895, 1099, 1435, 1499, 2753.003, 3200, 3220 and 3845, respectively.
- l. *Allocation of Budget Authority:*** EPA is an allocation budget transfer parent to five federal agencies: Department of Interior, Department of Labor, Center for Disease Control, Department of Commerce, and Federal Emergency Management Agency. EPA has an Interagency Agreement or a Memorandum of Understanding (MOU) with each child agency to provide an annual work plan and quarterly progress report containing an accounting of funds obligated in each budget category within 15 days after the end of each quarter. This allows EPA to properly report the financial activity. The allocation transfers are reported in the net cost of operations, changes in net position, balance sheet and budgetary resources where activity is being performed by the receiving Federal entity. In



addition, EPA receives allocation transfers, as a child, from the Bureau of Land Management.

## 2. Revolving Funds (Treasury Fund Group 4000 – 4999)

- a. Reregistration and Expedited Processing Fund:* The Revolving Fund, Treasury fund group 4310, was authorized by the FIFRA of 1972, as amended by the FIFRA Amendments of 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide Maintenance fees are paid by industry to offset the costs of pesticide re-registration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.
- b. Tolerance Revolving Fund:* The Tolerance Revolving Fund, Treasury fund group 4311, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997 were accounted for under this fund. Presently these fees are being deposited in the FIFRA fund (see above).
- c. Asbestos Loan Program:* The Asbestos Loan Program is accounted for under Treasury fund group 4322, Financing Account for loan disbursements, loans receivable and loan collections on post-FY 1991 loans. Refer to General Fund Appropriations paragraph h. for details.
- d. Working Capital Fund (WCF):* The WCF, Treasury fund group, 4565, includes four activities: computer support services, financial system services, employee relocation services, and postage. The WCF derives revenue from these activities based upon a fee for services. The WCF's customers currently consist primarily of Agency program offices and a small portion from other federal agencies. Accordingly, those revenues generated by the WCF from services provided to Agency program offices and expenses recorded by the program offices for use of such services, along with the related advances/liabilities, are eliminated on consolidation of the financial statements.

### 3. Special Funds (Treasury Fund Group 5000 - 5999)

***Environmental Services Receipt Account:*** The Environmental Services Receipt Account authorized by a 1990 act, “To amend the Clean Air Act (P.L. 101-549),” Treasury fund group 5295, was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund can only be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts if authorized by Congress in the Agency's appropriations bill.

***Exxon Valdez Settlement Fund:*** The Exxon Valdez Settlement Fund authorized by a 1992 act, “Making appropriations for the Department of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions corporations, and offices for the fiscal year ending September 30, 1993 (P.L. 102-389),” Treasury fund group 5297, has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

***Pesticide Registration Fund:*** The Pesticide Registration Fund authorized by the “Consolidated Appropriations Act, 2004 (P.L. 108-199),” Treasury fund group 5374, was authorized for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Amendments of 1988, are to be paid by industry and deposited into this fund group.

### 4. Deposit Funds (Treasury Fund Group 6000 – 6999)

Deposits include: Fees for Ocean Dumping; Nonconformance Penalties; Clean Air Allowance Auction and Sale; Advances without Orders; and Suspense and Payroll Deposits for Savings Bonds, and State, City Income Taxes Withheld, and Other Federal Payroll Withholding Allotments. These funds are accounted for under Treasury fund groups 6264, 6265, 6266, 6500, 6050, 6275, and 6276, respectively.

### 5. Trust Funds (Treasury Fund Group 8000 – 8999)

***a. Superfund Trust Fund:*** In 1980, the Superfund Trust Fund, Treasury fund group 8145, was established by the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) to provide resources needed to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to other federal agencies to carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites

qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other federal agencies. The Superfund Trust Fund includes Treasury's collections and investment activity.

- b. *Leaking Underground Storage Tank (LUST) Trust Fund:*** The LUST Trust Fund, Treasury fund group 8153, was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource Conservation and Recovery Act. The program is financed by a one cent a gallon tax on motor fuels which will expire in 2011.
- c. *Oil Spill Response Trust Fund:*** The Oil Spill Response Trust Fund, Treasury fund group 8221, was authorized by the Oil Pollution Act of 1990 (OPA). Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for oil spill cleanup actions is provided through the U.S. Coast Guard under the Oil Spill Liability Trust Fund and reimbursable funding from other federal agencies.
- d. *Miscellaneous Contributed Funds Trust Fund:*** The Miscellaneous Contributed Funds Trust Fund authorized in the Federal Water Pollution Control Act (Clean Water Act) as amended by (P.L. 92-500, The Federal Water Pollution Control Act Amendments of 1972), Treasury fund group 8741, includes gifts for pollution control programs that are usually designated for a specific use by donors and/or deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner.

## **C. Budgets and Budgetary Accounting**

### **1. General Funds**

Congress adopts an annual appropriation for STAG, B&F, and for Payments to the Hazardous Substance Superfund to be available until expended, as well as annual appropriations for S&T, EPM and for the OIG to be available for 2 fiscal years. When the appropriations for the General Funds are enacted, Treasury issues a warrant to the respective appropriations. As the Agency disburses obligated amounts, the balance of funds available to the appropriation is reduced at Treasury.

The Asbestos Loan Program is a commercial activity financed from a combination of two sources, one for the long term costs of the loans and another for the remaining non-subsidized portion of the loans. Congress adopted a 1 year appropriation, available for obligation in the fiscal year for which it was appropriated, to cover the estimated long term cost of the Asbestos loans. The long term costs are defined as the net present value of the estimated cash flows associated with the loans. The portion of each loan disbursement that did not represent long term cost is financed under permanent indefinite borrowing authority established with the Treasury. A permanent indefinite appropriation is available to finance the costs of subsidy re-estimates that occur in subsequent years after the loans were disbursed.

Funds transferred from other federal agencies are processed as non-expenditure transfers. As the Agency disburses the obligated amounts, the balance of funding available to the appropriation is reduced at Treasury.

Clearing accounts and receipt accounts receive no appropriated funds. Amounts are recorded to the clearing accounts pending further disposition. Amounts recorded to the receipt accounts capture amounts collected for or payable to the Treasury General Fund.

### **2. Revolving Funds**

Funding of the FIFRA and Pesticide Registration Funds is provided by fees collected from industry to offset costs incurred by the Agency in carrying out these programs. Each year the Agency submits an apportionment request to OMB based on the anticipated collections of industry fees.

Funding of the WCF is provided by fees collected from other Agency appropriations and other federal agencies to offset costs incurred for providing Agency administrative support for computer and telecommunication services, financial system services, employee relocation services, and postage.

### **3. Special Funds**

The Environmental Services Receipt Account obtains fees associated with environmental programs.

Exxon Valdez uses funding collected from reimbursement from the Exxon Valdez settlement.

### **4. Deposit Funds**

Deposit accounts receive no appropriated funds. Amounts are recorded to the deposit accounts pending further disposition. These are not EPA's funds.

### **5. Trust Funds**

Congress adopts an annual appropriation amount for the Superfund, LUST and the Oil Spill Response Trust Funds to remain available until expended. A transfer account for the Superfund and LUST Trust Fund has been established for purposes of carrying out the program activities. As the Agency disburses obligated amounts from the transfer account, the Agency draws down monies from the Superfund and LUST Trust Fund at Treasury to cover the amounts being disbursed. The Agency draws down all the appropriated monies from the Principal Fund of the Oil Spill Liability Trust Fund when Congress adopts the appropriation amount.

## **D. Basis of Accounting**

Generally Accepted Accounting Principles (GAAP) for Federal entities is the standard prescribed by the Federal Accounting Standards Advisory Board (FASAB), which is the official standard-setting body for the Federal government. The financial statements are prepared in accordance with GAAP for Federal entities.

Transactions are recorded on an accrual accounting basis and on a budgetary basis (where budgets are issued). Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

## **E. Revenues and Other Financing Sources**

The following EPA policies and procedures to account for inflow of revenue and other financing sources are in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 7, "Accounting for Revenues and Other Financing Sources."

The Superfund program receives most of its funding through appropriations that may be used within specific statutory limits for operating and capital expenditures (primarily equipment). Additional financing for the Superfund program is obtained through: reimbursements from other federal agencies, state cost share payments under Superfund State Contracts (SSCs), and settlement proceeds from Potentially Responsible Parties (PRPs) under CERCLA Section 122(b)(3) placed in special accounts. Cost recovery settlements that are not placed in special accounts continue to be deposited in the Trust Fund.

Most of the other funds receive funding needed to support programs through appropriations which may be used within statutory limits for operating and capital expenditures. However, under Credit Reform provisions, the Asbestos Loan Program receives funding to support the subsidy cost of loans through appropriations which may be used within statutory limits. The Asbestos Direct Loan Financing fund 4322, an off-budget fund, receives additional funding to support the outstanding loans through collections from the Program fund 0118 for the subsidized portion of the loan.

The FIFRA and Pesticide Registration funds receive funding through fees collected for services provided and interest on invested funds. The WCF receives revenue through fees collected for services provided to Agency program offices. Such revenue is eliminated with related Agency program expenses upon consolidation of the Agency's financial statements. The Exxon Valdez Settlement Fund receives funding through reimbursements.

Appropriated funds are recognized as Other Financing Sources expended when goods and services have been rendered without regard to payment of cash. Other revenues are recognized when earned (i.e., when services have been rendered).

#### **F. Funds with the Treasury**

The Agency does not maintain cash in commercial bank accounts. Cash receipts and disbursements are handled by Treasury. The major funds maintained with Treasury are Appropriated Funds, Revolving Funds, Trust Funds, Special Funds, Deposit Funds, and Clearing Accounts. These funds have balances available to pay current liabilities and finance authorized obligations, as applicable.

#### **G. Investments in U.S. Government Securities**

Investments in U.S. Government securities are maintained by Treasury and are reported at amortized cost net of unamortized discounts. Discounts are amortized over the term of the investments and reported as interest income. No provision is made for unrealized gains or losses on these securities because, in the majority of cases, they are held to maturity (see Note 4).

**H. Notes Receivable**

The Agency records notes receivable at their face value and any accrued interest as of the date of receipt.

**I. Marketable Securities**

The Agency records marketable securities at cost as of the date of receipt. Marketable securities are held by Treasury and reported at their cost value in the financial statements until sold (see Note 4).

**J. Accounts Receivable and Interest Receivable**

The majority of receivables for non-Superfund funds represent penalties and interest receivable for general fund receipt accounts, unbilled intragovernmental reimbursements receivable, allocations receivable from Superfund (eliminated in consolidated totals), and refunds receivable for the STAG appropriation.

Superfund accounts receivable represent recovery of costs from PRPs as provided under CERCLA as amended by SARA. Since there is no assurance that these funds will be recovered, cost recovery expenditures are expensed when incurred (see Note 5).

The Agency records accounts receivable from PRPs for Superfund site response costs when a consent decree, judgment, administrative order, or settlement is entered. These agreements are generally negotiated after at least some, but not necessarily all, of the site response costs have been incurred. It is the Agency's position that until a consent decree or other form of settlement is obtained, the amount recoverable should not be recorded.

The Agency also records accounts receivable from states for a percentage of Superfund site remedial action costs incurred by the Agency within those states. As agreed to under SSCs, cost sharing arrangements may vary according to whether a site was privately or publicly operated at the time of hazardous substance disposal and whether the Agency response action was removal or remedial. SSC agreements are usually for 10 percent or 50 percent of site remedial action costs, depending on who has the lead for the site (i.e., publicly or privately owned). States may pay the full amount of their share in advance or incrementally throughout the remedial action process.

**K. Advances and Prepayments**

Advances and prepayments represent funds advanced or prepaid to other entities both internal and external to the Agency for which a budgetary expenditure has not yet occurred.

**L. Loans Receivable**

Loans are accounted for as receivables after funds have been disbursed. Loans receivable resulting from obligations on or before September 30, 1991, are reduced by the allowance for uncollectible loans. Loans receivable resulting from loans obligated on or after October 1, 1991, are reduced by an allowance equal to the present value of the subsidy costs associated with these loans. The subsidy cost is calculated based on the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries offset by fees collected and other estimated cash flows associated with these loans.

**M. Appropriated Amounts Held by Treasury**

For the Superfund and LUST Trust Funds and for amounts appropriated from the Superfund Trust Fund to the OIG, cash available to the Agency that is not needed immediately for current disbursements remains in the respective Trust Funds managed by Treasury.

**N. Property, Plant, and Equipment**

EPA accounts for its personal and real property accounting records in accordance with SFFAS No. 6, "Accounting for Property, Plant and Equipment." For EPA-held property, the Fixed Assets Subsystem (FAS) automatically generates depreciation entries monthly based on acquisition dates.

A purchase of EPA-held or contract personal property is capitalized if it is valued at \$25 thousand or more and has an estimated useful life of at least 2 years. For contractor held property, depreciation is taken on a modified straight-line basis over a period of 6 years depreciating 10 percent the first and sixth year, and 20 percent in years 2 through 5. Detailed records are maintained and accounted for in contractor systems, not in FAS for contractor held property. Acquisitions of EPA-held personal property are depreciated using the straight-line method over the specific asset's useful life, ranging from 2 to 15 years.

Personal property also consists of capital leases. To be defined as a capital lease, it must, at its inception, have a lease term of two or more years and the lower of the fair value or present value of the minimum lease payments must be \$75 thousand or more. Capital leases may also contain real property (therefore considered in the real property category as well), but these need to meet an \$85 thousand capitalization threshold. In addition, the lease must meet one of the following criteria: transfers ownership to EPA, contains a bargain purchase option, the lease term is equal to 75 percent or more of the estimated service life, or the present value of the lease and other minimum lease payments equal or exceed 90 percent of the fair value.



Superfund contract property used as part of the remedy for site-specific response actions is capitalized in accordance with the Agency's capitalization threshold. This property is part of the remedy at the site and eventually becomes part of the site itself. Once the response action has been completed and the remedy implemented, EPA retains control of the property (i.e., pump and treat facility) for 10 years or less, and transfers its interest in the facility to the respective state for mandatory operation and maintenance – usually 20 years or more. Consistent with EPA's 10 year retention period, depreciation for this property is based on a 10 year life. However, if any property is transferred to a state in a year or less, this property is charged to expense. If any property is sold prior to EPA relinquishing interest, the proceeds from the sale of that property shall be applied against contract payments or refunded as required by the Federal Acquisition Regulations.

An exception to the accounting of contract property includes equipment purchased by the Working Capital Fund (WCF). This property is retained in FAS and depreciated utilizing the straight-line method based upon the asset's acquisition date and useful life.

Real property consists of land, buildings, capital and leasehold improvements and capital leases. Real property, other than land, is capitalized when the value is \$85 thousand or more. Land is capitalized regardless of cost. Buildings are valued at an estimated original cost basis, and land is valued at fair market value if purchased prior to FY 1997. Real property purchased during and after FY 1997 is valued at actual cost. Depreciation for real property is calculated using the straight-line method over the specific asset's useful life, ranging from 10 to 102 years. Leasehold improvements are amortized over the lesser of their useful life or the unexpired lease term. Additions to property and improvements not meeting the capitalization criteria, expenditures for minor alterations, and repairs and maintenance are expensed when incurred.

Software for the WCF, a revenue generating activity, is capitalized if the purchase price is \$100 thousand or more with an estimated useful life of 2 years or more. All other funds capitalize software if those investments are considered Capital Planning and Investment Control (CPIC) or CPIC Lite systems with the provisions of SFFAS No. 10, "Accounting for Internal Use Software." Once software enters the production life cycle phase, it is depreciated using the straight-line method over the specific asset's useful life ranging from 2 to 10 years.

**O. Liabilities**

Liabilities represent the amount of monies or other resources that are more likely than not to be paid by the Agency as the result of an Agency transaction or event that has already occurred and can be reasonably estimated. However, no liability can be paid by the Agency without an appropriation or other collections. Liabilities for which an appropriation has not been enacted are classified as unfunded liabilities and there is no certainty that the appropriations will be enacted. Liabilities of the Agency arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

**P. Borrowing Payable to the Treasury**

Borrowing payable to Treasury results from loans from Treasury to fund the Asbestos direct loans described in part B. and C. of this note. Periodic principal payments are made to Treasury based on the collections of loans receivable.

**Q. Interest Payable to Treasury**

The Asbestos Loan Program makes periodic interest payments to Treasury based on its debt.

**R. Accrued Unfunded Annual Leave**

Annual, sick and other leave is expensed as taken during the fiscal year. Sick leave earned but not taken is not accrued as a liability. Annual leave earned but not taken as of the end of the fiscal year is accrued as an unfunded liability. Accrued unfunded annual leave is included in Note 34 as a component of "Payroll and Benefits Payable."

**S. Retirement Plan**

There are two primary retirement systems for federal employees. Employees hired prior to January 1, 1987, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Agency automatically contributes one percent of pay and matches any employee contributions up to an additional four percent of pay. The Agency also contributes the employer's matching share for Social Security.

With the issuance of SFFAS No. 5, "Accounting for Liabilities of the Federal Government," accounting and reporting standards were established for liabilities relating to the federal employee benefit programs (Retirement, Health Benefits, and Life

Insurance). SFFAS No. 5 requires that the employing agencies recognize the cost of pensions and other retirement benefits during their employees' active years of service. SFFAS No. 5 requires that the Office of Personnel Management (OPM), as administrator of the CSRS and FERS, the Federal Employees Health Benefits Program, and the Federal Employees Group Life Insurance Program, provide federal agencies with the actuarial cost factors to compute the liability for each program.

## **T. Prior Period Adjustments and Restatements**

Prior period adjustments, if any, are made in accordance with SFFAS No. 21, "Reporting Corrections of Errors and Changes in Accounting Principles." Specifically, prior period adjustments will only be made for material prior period errors to: (1) the current period financial statements, and (2) the prior period financial statements presented for comparison. Adjustments related to changes in accounting principles will only be made to the current period financial statements, but not to prior period financial statements presented for comparison.

## **U. Recovery Act Funds**

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Act was enacted to create jobs in the United States, encourage technical advances, assist in modernizing the nation's infrastructure, and enhance energy independence. The EPA was charged with the task of distributing funds to invest in various projects aimed at creating advances in science, health, and environmental protection that will provide long-term economic benefits.

EPA manages almost \$7.22 billion in Recovery Act funded projects and programs that will help achieve these goals, offer resources to help other "green" agencies, and administer environmental laws that will govern Recovery activities. As of September 30, 2010, EPA has paid out \$3.71 billion.

EPA, in collaboration with states, tribes, local governments, territories and other partners, is administering the funds it received under the Recovery Act through four appropriations. The funds include:

State and Tribal Assistance Grants (STAG) that in turn include: \$4 billion for assistance to help communities with water quality and wastewater infrastructure needs and \$2 billion for drinking water infrastructure needs (Water State Revolving Fund programs and Water Quality Planning program); \$100 million for competitive grants to evaluate and clean up former industrial and commercial sites (Brownfields program); \$300 million for grants and loans to help regional, state and local governments, tribal agencies, and non-profit organizations with projects that reduce diesel emissions (Clean Diesel programs); \$600 million for the cleanup of hazardous sites (Superfund program); \$200

million for cleanup of petroleum leaks from underground storage tanks (Leaking Underground Storage Tank Fund program); and \$20 million for audits and investigations conducted by the Inspector General (IG).

The EPA has committed to focusing on the following areas: Clean Diesel Emissions, Superfund Hazardous Waste Cleanup, Cleaner Underground Storage Tank Sites, Revitalized Neighborhoods from Brownfields and Cleaner Water and Drinking Water Infrastructures.

The vast majority of the contracts awarded under the Recovery Act will be entered into using competitive contracts. EPA is committed fully to ensuring transparency and accountability throughout the Agency in spending Recovery Act funds in accordance with OMB guidance.

EPA has set up a Stimulus Steering Committee that meets to review and report on the status of the distribution of the Recovery Act Funds to ensure transparency and accuracy. EPA has also developed a Stewardship Plan which is an Agency-level risk mitigation plan that sets out the Agency's Recovery Act risk assessment, internal controls and monitoring activities. The Stewardship Plan is divided into seven functional areas: grants, interagency agreements, contracts, human capital/payroll, budget execution, performance reporting and financial reporting. The Stewardship Plan was developed around Government Accountability Office (GAO) standards for internal control. Under each functional area, risks are assessed and related control, communication and monitoring activities are identified for each impacted program. The Plan is a dynamic document and will be updated as revised OMB guidance is issued or additional risks are uncovered.

EPA has the three-year EPM treasury symbol 689/10108 that is under the Recovery Act. EPA's two-year EPM treasury symbol 689/00108 is a "regular" program. EPA's other Recovery Act programs are the following: Office of Inspector General, treasury symbol 689/20113; State and Tribal Assistance Grants, treasury symbol 689/00102; Payment to the Superfund, treasury symbol 689/00249; Superfund, treasury symbol 689/08195; and Leaking Underground Storage Tank, treasury symbol 689/08196.

## **V. British Petroleum (BP) Oil Spill**

On April 20, 2010 the Deepwater Horizon drilling rig exploded, releasing large volumes of oil into the Gulf of Mexico. As a responsible party, BP is required by the 1990 Oil Pollution Act to fund the cost of the response and cleanup operations. EPA has been working in conjunction with the Coast Guard who was named the lead on the effort to fund the immediate oil spill clean ups.

## W. Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

### **Note 2. Fund Balance with Treasury (FBWT)**

Fund Balance with Treasury as of September 30, 2010 and 2009, consists of the following:

	<b>FY 2010</b>			<b>FY 2009</b>		
	<b>Entity Assets</b>	<b>Non-Entity Assets</b>	<b>Total</b>	<b>Entity Assets</b>	<b>Non-Entity Assets</b>	<b>Total</b>
<b>Trust Funds:</b>						
Superfund	\$ 106,247	\$ -	\$ 106,247	\$ 62,631	\$ -	\$ 62,631
LUST	55,132	-	55,132	25,169	-	25,169
Oil Spill & Misc.	9,644	-	9,644	2,441	-	2,441
<b>Revolving Funds:</b>						
FIFRA/Tolerance	4,204	-	4,204	7,153	-	7,153
Working Capital	80,485	-	80,485	80,293	-	80,293
Cr. Reform Finan.	390	-	390	390	-	390
<b>Appropriated</b>	14,049,511	-	14,049,511	15,122,481	-	15,122,481
<b>Other Fund Types</b>	289,149	8,262	297,411	247,877	9,482	257,359
<b>Total</b>	<b>\$ 14,594,762</b>	<b>\$ 8,262</b>	<b>\$ 14,603,024</b>	<b>\$ 15,548,435</b>	<b>\$ 9,482</b>	<b>\$ 15,557,917</b>

Entity fund balances, except for special fund receipt accounts, are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below). Entity Assets for Other Fund Types consist of special purpose funds and special fund receipt accounts, such as the Pesticide Registration funds and the Environmental Services receipt account. The Non-Entity Assets for Other Fund Types consist of clearing accounts and deposit funds, which are either awaiting documentation for the determination of proper disposition or being held by EPA for other entities.

<b>Status of Fund Balances:</b>	<b>FY 2010</b>	<b>FY 2009</b>
Unobligated Amounts in Fund Balance:		
Available for Obligation	\$ 4,430,813	\$ 3,440,831
Unavailable for Obligation	195,529	262,971
Net Receivables from Invested Balances	(3,736,818)	(3,583,119)
Balances in Treasury Trust Fund (Note 38)	(1,115)	(18,334)
Obligated Balance not yet Disbursed	13,432,954	15,214,555
Non-Budgetary FBWT	281,661	241,013
<b>Totals</b>	<b>\$ 14,603,024</b>	<b>\$ 15,557,917</b>

The funds available for obligation may be apportioned by OMB for new obligations at the

beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations. For FY 2010 and FY 2009 no differences existed between Treasury's accounts and EPA's statements for fund balances with Treasury.

### **Note 3. Cash and Other Monetary Assets**

As of September 30, 2010 and 2009, the balance in the imprest fund was \$10 thousand.

### **Note 4. Investments**

As of September 30, 2010 and 2009 investments related to Superfund and LUST consist of the following:

		Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value
<b>Intragovernmental Securities:</b>						
Non-Marketable	FY 2010	\$ 7,079,053	\$ (139,302)	\$ 25,258	\$ 7,243,613	\$ 7,243,613
Non-Marketable	FY 2009	\$ 6,641,708	\$ (195,777)	\$ 42,463	\$ 6,879,948	\$ 6,879,948

CERCLA, as amended by SARA, authorizes EPA to recover monies to clean up Superfund sites from responsible parties (RPs). Some RPs file for bankruptcy under Title 11 of the U.S. Code. In bankruptcy settlements, EPA is an unsecured creditor and is entitled to receive a percentage of the assets remaining after secured creditors have been satisfied. Some RPs satisfy their debts by issuing securities of the reorganized company. The Agency does not intend to exercise ownership rights to these securities, and instead will convert them to cash as soon as practicable (see Note 6). All investments in Treasury securities are earmarked funds (see Note 19).

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for general Government purposes. Treasury securities are issued to EPA as evidence of its receipts. Treasury securities are an asset to EPA and a liability to the U.S. Treasury. Because EPA and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government-wide financial statements.

Treasury securities provide EPA with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When EPA requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

<b>Note 5. Accounts Receivable, Net</b>
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The Accounts Receivable as of September 30, 2010 and 2009 consist of the following:

		<u><b>FY 2010</b></u>	<u><b>FY 2009</b></u>
<b>Intragovernmental:</b>			
Accounts & Interest Receivable	\$	<b>45,698</b>	\$ <b>39,362</b>
<b>Total</b>	\$	<b>45,698</b>	\$ <b>39,362</b>
<b>Non-Federal:</b>			
Unbilled Accounts Receivable	\$	143,444	\$ 137,593
Accounts & Interest Receivable		1,958,981	1,376,831
Less: Allowance for Uncollectibles		(1,684,890)	(696,580)
<b>Total</b>	\$	<b>417,535</b>	\$ <b>817,844</b>

The Allowance for Uncollectible Accounts is determined both on a specific identification basis, as a result of a case-by-case review of receivables, and on a percentage basis for receivables not specifically identified.

<b>Note 6. Other Assets</b>
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Other Assets as of September 30, 2010 and 2009 consist of the following:

		<u><b>FY 2010</b></u>	<u><b>FY 2009</b></u>
<b>Intragovernmental:</b>			
Advances to Federal Agencies	\$	223,165	\$ 214,654
Advances for Postage		131	177
<b>Total</b>	\$	<b>223,296</b>	\$ <b>214,831</b>
<b>Non-Federal:</b>			
Travel Advances	\$	432	\$ (183)
Letter of Credit Advances		9	8
Other Advances		2,105	2,146
Operating Materials and Supplies		149	147
Inventory for Sale		139	110
<b>Total</b>	\$	<b>2,834</b>	\$ <b>2,228</b>

<b>Note 7. Loans Receivable, Net</b>
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Loans Receivable consists of Asbestos Loan Program loans disbursed from obligations made prior to FY 1992 and are presented net of allowances for estimated uncollectible loans, if an allowance was considered necessary. Loans disbursed from obligations made after FY 1991 are governed by the Federal Credit Reform Act, which mandates that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, anticipated delinquencies, and defaults) associated with direct loans be recognized as an expense in the year the loan is made. The net loan present value is the gross loan receivable less the subsidy present value. The amounts as of September 30, 2010 and 2009 are as follows:

		<b>FY 2010</b>				<b>FY 2009</b>		
		<b>Loans Receivable, Gross</b>	<b>Allowance*</b>	<b>Value of Assets Related to Direct Loans</b>		<b>Loans Receivable, Gross</b>	<b>Allowance*</b>	<b>Value of Assets Related to Direct Loans</b>
Direct Loans Obligated Prior to FY 1992	\$	545	\$ -	\$ 545	\$	2,003	\$ -	\$ 2,003
Direct Loans Obligated After FY 1991		4,931	(222)	4,709		10,590	(948)	9,642
<b>Total</b>	<b>\$</b>	<b>5,476</b>	<b>\$ (222)</b>	<b>\$ 5,254</b>	<b>\$</b>	<b>12,593</b>	<b>\$ (948)</b>	<b>\$ 11,645</b>

\* Allowance for Pre-Credit Reform loans (prior to FY 1992) is the Allowance for Estimated Uncollectible Loans, and the Allowance for Post Credit Reform Loans (after FY 1991) is the Allowance for Subsidy Cost (present value).

During FY 2008, EPA made a payment within the U.S. Treasury for the Asbestos Loan Program based on an upward re-estimate of \$33 thousand for increased loan financing costs. It was believed that the payment only consisted of “interest” costs and, as such, an automatic apportionment, per OMB Circular A-11, Section 120.83, was deemed appropriate. However, approximately one third (\$12 thousand) of the \$33 thousand re-estimate was for increased “subsidy” costs which requires an approved apportionment by OMB before any payment could be made. Therefore, the payment resulted in a minor technical Anti-deficiency Act (ADA) violation. On October 13, 2009, EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB.

Subsidy Expenses for Credit Reform Loans (reported on a cash basis):



		Interest Rate Re-estimate		Technical Re-estimate		Total
Upward Subsidy Reestimate – FY 2010	\$	5	\$	2	\$	7
Downward Subsidy Reestimate - FY 2010		(35)		(16)		(51)
<b>FY 2010 Totals</b>	<b>\$</b>	<b>(30)</b>	<b>\$</b>	<b>(14)</b>	<b>\$</b>	<b>(44)</b>
Upward Subsidy Reestimate – FY 2009	\$	-	\$	-	\$	-
Downward Subsidy Reestimate - FY 2009		(3)		(2)		(5)
<b>FY 2009 Totals</b>	<b>\$</b>	<b>(3)</b>	<b>\$</b>	<b>(2)</b>	<b>\$</b>	<b>(5)</b>

Schedule for Reconciling Subsidy Cost Allowance Balances							
(Post-1991 Direct Loans)							
						<u>FY 2010</u>	<u>FY 2009</u>
Beginning balance of the subsidy cost allowance						\$ (948)	\$ (1,752)
Add: subsidy expense for direct loans disbursed during the reporting years by component:							
	Interest rate differential costs						
	Default costs (net of recoveries)						
	Fees and other collections						
	Other subsidy costs						
Total of the above subsidy expense components						\$ -	\$ -
Adjustments:							
	Loan Modification						
	Fees received						
	Foreclosed property acquired						
	Loans written off						1
	Subsidy allowance amortization					477	752
	Other						
End balance of the subsidy cost allowance before reestimates						477	753
Add or subtract subsidy reestimates by component:							
(a)	Interest rate reestimate					176	36
(b)	Technical/default reestimate					73	15
Total of the above reestimate components						249	51
<b>Ending Balance of the subsidy cost allowance</b>						<b>\$ (222)</b>	<b>\$ (948)</b>
EPA has not disbursed Direct Loans since 1993.							

**Note 8. Accounts Payable and Accrued Liabilities**

The Accounts Payable and Accrued Liabilities are current liabilities and consist of the following amounts as of September 30, 2010 and 2009:

		<b>FY 2010</b>	<b>FY 2009</b>
<b>Intragovernmental:</b>			
Accounts Payable	\$	1,466	\$ 2,230
Accrued Liabilities		49,859	73,824
<b>Total</b>	\$	<b>51,325</b>	<b>\$ 76,054</b>
<b>Non-Federal:</b>		<b>FY 2010</b>	<b>FY 2009</b>
Accounts Payable	\$	118,033	\$ 116,799
Advances Payable		8	9
Interest Payable		7	6
Grant Liabilities		650,526	521,188
Other Accrued Liabilities		262,874	227,762
<b>Total</b>	\$	<b>1,031,448</b>	<b>\$ 865,764</b>

Other Accrued Liabilities primarily relate to contractor accruals.

**Note 9. General Property, Plant, and Equipment, Net**

General property, plant, and equipment (PP&E) consist of software, real property, EPA and contractor-held personal property, and capital leases.

As of September 30, 2010 and 2009, General PP&E consist of the following:

		<b>FY 2010</b>				<b>FY 2009</b>		
		<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>		<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
EPA-Held Equipment	\$	252,920	\$ (145,672)	\$ 107,248	\$	246,999	\$ (138,385)	\$ 108,614
Software		443,847	(158,034)	285,813		373,964	(118,115)	255,849
Contractor Held Equip.		95,494	(39,225)	56,269		79,855	(47,207)	32,648
Land and Buildings		630,252	(177,654)	452,598		607,131	(166,316)	440,815
Capital Leases		35,440	(22,247)	13,193		41,068	(26,506)	14,562
<b>Total</b>	\$	<b>1,457,953</b>	<b>\$ (542,832)</b>	<b>\$ 915,121</b>	\$	<b>1,349,017</b>	<b>\$ (496,529)</b>	<b>\$ 852,488</b>

**Note 10. Debt Due to Treasury**

The debt due to Treasury consists of borrowings to finance the Asbestos Loan Program. The debt to Treasury as of September 30, 2010 and 2009 is as follows:

All Other Funds	FY 2010			FY 2009		
	Beginning Balance	Net Borrowing	Ending Balance	Beginning Balance	Net Borrowing	Ending Balance
<b>Intragovernmental:</b>						
Debt to Treasury	\$ 9,983	\$ (5,139)	\$ 4,844	\$ 13,158	\$ (3,175)	\$ 9,983

**Note 11. Stewardship Land**

The Agency acquires title to certain property and property rights under the authorities provided in Section 104(j) CERCLA related to remedial clean-up sites. The property rights are in the form of fee interests (ownership) and easements to allow access to clean-up sites or to restrict usage of remediated sites. The Agency takes title to the land during remediation and transfers it to state or local governments upon the completion of clean-up. A site with “land acquired” may have more than one acquisition property. Sites are not counted as a withdrawal until all acquired properties have been transferred under the terms of 104(j).

As of September 30, 2010, the Agency possesses the following land and land rights:

	FY 2010	FY 2009
<b>Superfund Sites with Easements</b>		
Beginning Balance	33	32
Additions	2	2
Withdrawals	0	1
Ending Balance	35	33
<b>Superfund Sites with Land Acquired</b>		
Beginning Balance	30	31
Additions	2	0
Withdrawals	0	1
Ending Balance	32	30

**Note 12. Custodial Liability**

Custodial Liability represents the amount of net accounts receivable that, when collected, will be deposited to the Treasury General Fund. Included in the custodial liability are amounts for fines and penalties, interest assessments, repayments of loans, and miscellaneous other accounts receivable. As of September 30, 2010 and 2009, custodial liability is approximately \$53 million and \$71 million, respectively.

**Note 13. Other Liabilities**

Other Liabilities consist of the following as of September 30, 2010:

<b>Other Liabilities – Intragovernmental</b>		<b>Covered by Budgetary Resources</b>	<b>Not Covered by Budgetary Resources</b>		<b>Total</b>
<b>Current</b>					
Employer Contributions & Payroll Taxes	\$	22,585	\$ -	\$	22,585
WCF Advances		1,706	-		1,706
Other Advances		52,596	-		52,596
Advances, HRSTF Cashout		20,431	-		20,431
Deferred HRSTF Cashout		1,831	-		1,831
Liability for Deposit Funds		-	-		-
Resources Payable to Treasury		649	-		649
Subsidy Payable to Treasury		256	-		256
<b>Non-Current</b>					
Unfunded FECA Liability		-	10,232		10,232
Payable to Treasury Judgment Fund		-	22,000		22,000
<b>Total Intragovernmental</b>	<b>\$</b>	<b>100,054</b>	<b>\$ 32,232</b>	<b>\$</b>	<b>132,286</b>
<b>Other Liabilities - Non-Federal</b>					
<b>Current</b>					
Unearned Advances, Non-Federal	\$	65,314	\$ -	\$	65,314
Liability for Deposit Funds, Non-Federal		8,128	-		8,128
Contract Holdbacks		155			155
<b>Non-Current</b>					
Other Liabilities		-	200		200
Capital Lease Liability		-	26,199		26,199
<b>Total Non-Federal</b>	<b>\$</b>	<b>73,597</b>	<b>\$ 26,399</b>	<b>\$</b>	<b>99,996</b>

Other Liabilities consist of the following as of September 30, 2009:

Other Liabilities – Intragovernmental		Covered by Budgetary Resources	Not Covered by Budgetary Resources	Total
<b>Current</b>				
Employer Contributions & Payroll Taxes	\$	19,875	\$ -	\$ 19,875
WCF Advances		960	-	960
Other Advances		60,043	-	60,043
Advances, HRSTF Cashout		27,642	-	27,642
Deferred HRSTF Cashout		-	-	-
Liability for Deposit Funds		-	-	-
Resources Payable to Treasury		3	-	3
Subsidy Payable to Treasury		54	-	54
<b>Non-Current</b>				
Unfunded FECA Liability		-	10,068	10,068
Payable to Treasury Judgment Fund		-	22,000	22,000
<b>Total Intragovernmental</b>	<b>\$</b>	<b>108,577</b>	<b>\$ 32,068</b>	<b>\$ 140,645</b>
<b>Other Liabilities - Non-Federal</b>				
<b>Current</b>				
Unearned Advances	\$	79,490	\$ -	\$ 79,490
Liability for Deposit Funds		8,330	-	8,330
<b>Non-Current</b>				
Other Liabilities		-	230	230
Capital Lease Liability		-	27,868	27,868
<b>Total Non-Federal</b>	<b>\$</b>	<b>87,820</b>	<b>\$ 28,098</b>	<b>\$ 115,918</b>

#### **Note 14. Leases**

##### **Capital Leases:**

The value of assets held under Capital Leases as of September 30, 2010 and 2009 are as follows:

Summary of Assets Under Capital Lease:		FY 2010	FY 2009
Real Property	\$	35,285	\$ 40,913
Personal Property		155	155
Software License			-
<b>Total</b>	<b>\$</b>	<b>35,440</b>	<b>\$ 41,068</b>
Accumulated Amortization	\$	22,246	\$ 26,506

EPA had three capital leases for land and buildings housing scientific laboratories and computer facilities. All of these leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics, U.S. Department of Labor. One capital lease expired during FY 2010 and the others leases terminate in FY 2013 and FY 2025.

The total future minimum capital lease payments are listed below.

<b><u>Future Payments Due:</u></b>		
<b>Fiscal Year</b>		<b>Capital Leases</b>
2011	\$	5,714
2012		5,714
2013		5,714
2014		4,215
After 5 years		43,558
<b>Total Future Minimum Lease Payments</b>		<b>64,915</b>
Less: Imputed Interest	\$	(38,716)
<b>Net Capital Lease Liability</b>		<b>26,199</b>
<b>Liabilities not Covered by Budgetary Resources</b>	<b>\$</b>	<b>26,199</b>
<b>(See Note 13)</b>		

### **Operating Leases:**

The GSA provides leased real property (land and buildings) as office space for EPA employees. GSA charges a Standard Level User Charge that approximates the commercial rental rates for similar properties.

EPA had four direct operating leases for land and buildings housing scientific laboratories and computer facilities. The leases include a base rental charge and escalation clauses based upon either rising operating costs and/or real estate taxes. The base operating costs are adjusted annually according to escalators in the Consumer Price Indices published by the Bureau of Labor Statistics. Two leases expired in FY 2010 and the other two expire in FY 2017 and FY 2020. These charges are expended from the EPM appropriation.

The total minimum future operating lease costs are listed below:

		<b>Operating Leases, Land and Buildings</b>
<b><u>Fiscal Year</u></b>		
2011	\$	89
2012		89
2013		89
2014		89
Beyond 2014		374
<b>Total Future Minimum Lease Payments</b>	<b>\$</b>	<b>730</b>

***Note 15. FECA Actuarial Liabilities***

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Annually, EPA is allocated the portion of the long term FECA actuarial liability attributable to the entity. The liability is calculated to estimate the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability amounts and the calculation methodologies are provided by the Department of Labor.

The FECA Actuarial Liability as of September 30, 2010 and 2009 was \$44.9 million and \$44.1 million, respectively. The FY 2010 present value of these estimated outflows is calculated using a discount rate of 3.653 percent in the first year, and 4.3 percent in the years thereafter. The estimated future costs are recorded as an unfunded liability.

***Note 16. Cashout Advances, Superfund***

Cashout advances are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2010 and 2009, cashouts are approximately \$637 million and \$572 million respectively.

<b><i>Note 17. Unexpended Appropriations – Other Funds</i></b>
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As of September 30, 2010 and 2009, the Unexpended Appropriations consist of the following:

<b>Unexpended Appropriations:</b>		<b><u>FY 2010</u></b>		<b><u>FY 2009</u></b>
Unobligated				
Available	\$	184,815	\$	1,652,461
Unavailable		275,592		70,053
Undelivered Orders		12,882,377		12,813,833
<b>Total</b>	<b>\$</b>	<b>13,342,784</b>	<b>\$</b>	<b>14,536,347</b>

<b><i>Note 18. Commitments and Contingencies</i></b>
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EPA may be a party in various administrative proceedings, actions and claims brought by or against it. These include:

- Various personnel actions, suits, or claims brought against the Agency by employees and others.
- Various contract and assistance program claims brought against the Agency by vendors, grantees and others.
- The legal recovery of Superfund costs incurred for pollution cleanup of specific sites, to include the collection of fines and penalties from responsible parties.
- Claims against recipients for improperly spent assistance funds which may be settled by a reduction of future EPA funding to the grantee or the provision of additional grantee matching funds.

As of September 30, 2010 and 2009 total accrued liabilities for commitments and potential loss contingencies is \$4.37 million and \$4.57 million, respectively. Further discussion of the cases and claims that give rise to this accrued liability are discussed immediately below.

### **Litigation Claims and Assessments**

There is currently one legal claim which has been asserted against the EPA pursuant to the Federal Tort Claims and Fair Labor Standards Acts. This loss has been deemed probable, and the unfavorable outcome is estimated to be between \$2 million and \$8 million. EPA has accrued the higher conservative amount as of September 30, 2010. The maximum amount of exposure under the claim could range as much as \$8 million in the aggregate.



## **Superfund**

Under CERCLA Section 106(a), EPA issues administrative orders that require parties to clean up contaminated sites. CERCLA Section 106(b) allows a party that has complied with such an order to petition EPA for reimbursement from the fund of its reasonable costs of responding to the order, plus interest. To be eligible for reimbursement, the party must demonstrate either that it was not a liable party under CERCLA Section 107(a) for the response action ordered, or that the Agency's selection of the response action was arbitrary and capricious or otherwise not in accordance with law.

As of September 30, 2010, there is one CERCLA Section 106(b) administrative claim which has been asserted and for which an unfavorable outcome has been deemed probable. It is estimated that the potential loss could be approximately \$2.37 million and this amount has been accrued as of September 30, 2010.

## **Judgment Fund**

In cases that are paid by the U.S. Treasury Judgment Fund, EPA must recognize the full cost of a claim regardless of which entity is actually paying the claim. Until these claims are settled or a court judgment is assessed and the Judgment Fund is determined to be the appropriate source for the payment, claims that are probable and estimable must be recognized as an expense and liability of the Agency. For these cases, at the time of settlement or judgment, the liability will be reduced and an imputed financing source recognized. See Interpretation of Federal Financial Accounting Standards No. 2, "Accounting for Treasury Judgment Fund Transactions."

As of September 30, 2010, there are no material claims pending in the Treasury's Judgment Fund. However, EPA has a \$22 million liability to the Treasury Judgment Fund for a payment made by the Fund to settle a contract dispute claim.

## **Other Commitments**

EPA has a commitment to fund the United States Government's payment to the Commission of the North American Agreement on Environmental Cooperation between the Governments of Canada, the Government of the United Mexican States, and the Government of the United States of America (commonly referred to as CEC). According to the terms of the agreement, each government pays an equal share to cover the operating costs of the CEC. For the periods ended September 30, 2010 and 2009, EPA paid \$3 million for each of these periods to the CEC. A payment of \$3 million was made in FY 2010.

EPA has a legal commitment under a non-cancellable agreement, subject to the availability of funds, with the United Nations Environment Program (UNEP). This agreement enables EPA to provide funding to the Multilateral Fund for the Implementation of the Montreal Protocol. EPA made payments totaling \$10.5 million in FY 2010. Future payments totaling

\$9.6 million have been deemed reasonably possible and are anticipated to be paid in fiscal years 2011 through 2013.

**Note 19. Earmarked Funds**

	Environmental Services	LUST	Superfund	Other Earmarked Funds	Total Earmarked Funds
<b>Balance sheet as of September 30, 2010</b>					
Assets					
Fund Balance with Treasury	\$ 273,420	\$ 55,132	\$ 106,247	\$ 29,578	\$ 464,377
Investments		3,502,913	3,740,700		7,243,613
Accounts Receivable, Net			391,388	7,697	399,085
Other Assets		266	115,729	6,199	122,194
Total Assets	273,420	3,558,311	4,354,064	43,474	8,229,269
Other Liabilities	\$ 4	\$ 19,094	\$ 1,013,566	\$ 44,223	\$ 1,076,887
Total Liabilities	\$ 4	\$ 19,094	\$ 1,013,566	\$ 44,223	\$ 1,076,887
Cumulative Results of Operations	\$ 273,416	\$ 3,539,217	\$ 3,340,498	\$ (749)	\$ 7,152,382
Total Liabilities and Net Position	\$ 273,420	\$ 3,558,311	\$ 4,354,064	\$ 43,474	\$ 8,229,269
<b>Statement of Changes in Net Cost for the Period Ended September 30, 2010</b>					
Gross Program Costs	\$ -	\$ 181,870	\$ 1,844,712	\$ 121,214	\$ 2,147,796
Less: Earned Revenues	-	-	484,165	98,246	582,411
Net Cost of Operations	\$ -	\$ 181,870	\$ 1,360,547	\$ 22,968	\$ 1,565,385
<b>Statement of Changes in Net Position for the Period ended September 30, 2010</b>					
Net Position, Beginning of Period	\$ 231,820	\$ 3,436,303	\$ 3,416,536	\$ 1,817	\$ 7,086,476
Nonexchange Revenue- Securities Investments		115,523	14,968	13	130,504
Nonexchange Revenue	41,596	168,990	3,396	2	213,984
Other Budgetary Finance Sources			1,241,402	18,379	1,259,781
Other Financing Sources		271	24,743	2,008	27,022
Net Cost of Operations		(181,870)	(1,360,547)	(22,968)	(1,565,385)
Change in Net Position	\$ 41,596	\$ 102,914	\$ (76,038)	\$ (2,566)	\$ 65,906
Net Position	\$ 273,416	\$ 3,539,217	\$ 3,340,498	\$ (749)	\$ 7,152,382

				Environmental Services	LUST	Superfund	Other Earmarked Funds	Total Earmarked Funds	
<b>Balance sheet as of September 30, 2009</b>									
<b>Assets</b>									
Fund Balance with Treasury				\$ 231,821	\$ 25,169	\$ 62,631	\$ 25,650	\$ 345,271	
Investments				-	3,422,610	3,457,338	-	6,879,948	
Accounts Receivable, Net				-	-	769,531	4,157	773,688	
Other Assets				-	217	104,735	4,827	109,780	
Total Assets				231,821	3,447,996	4,394,236	34,635	8,108,687	
<b>Other Liabilities</b>									
				\$ 1	\$ 11,693	\$ 977,700	\$ 32,817	\$ 1,022,211	
Total Liabilities				\$ 1	\$ 11,693	\$ 977,700	\$ 32,817	\$ 1,022,211	
Cumulative Results of Operations				\$ 231,820	\$ 3,436,303	\$ 3,416,536	\$ 1,817	\$ 7,086,476	
Total Liabilities and Net Position				\$ 231,821	\$ 3,447,996	\$ 4,394,236	\$ 34,634	\$ 8,108,687	
<b>Statement of Net Cost for the Period Ended September 30, 2009</b>									
Gross Program Costs				\$ -	\$ 98,901	\$ 1,672,246	\$ 75,485	\$ 1,846,632	
Less: Earned Revenues				-	79	615,577	55,411	671,067	
Net Cost of Operations				\$ -	\$ 98,822	\$ 1,056,669	\$ 20,074	\$ 1,175,565	
<b>Statement of Changes in Net Position for the Period ended September 30, 2009</b>									
Net Position, Beginning of Period				\$ 211,282	\$ 3,244,497	\$ 2,702,763	\$ 1,989	\$ 6,160,531	
Nonexchange Revenue- Securities Investments				-	124,088	52,065	15	176,168	
Nonexchange Revenue				20,538	169,186	(1,479)	-	188,245	
Other Budgetary Finance Sources				-	(3,000)	1,693,519	17,687	1,708,206	
Other Financing Sources				-	354	26,338	2,199	28,891	
Net Cost of Operations				-	(98,822)	(1,056,669)	(20,074)	(1,175,565)	
Change in Net Position				\$ 20,538	\$ 191,806	\$ 713,774	\$ (173)	\$ 925,945	
Net Position				\$ 231,820	\$ 3,436,303	\$ 3,416,537	\$ 1,816	\$ 7,086,476	

### Earmarked funds are as follows:

***Environmental Services Receipt Account:*** The Environmental Services Receipt Account authorized by a 1990 act, "To amend the Clean Air Act (P.L. 101-549)," Treasury fund group 5295, was established for the deposit of fee receipts associated with environmental programs, including radon measurement proficiency ratings and training, motor vehicle engine certifications, and water pollution permits. Receipts in this special fund can only be appropriated to the S&T and EPM appropriations to meet the expenses of the programs that generate the receipts if authorized by Congress in the Agency's appropriations bill.

***Leaking Underground Storage Tank (LUST) Trust Fund:*** The LUST Trust Fund, Treasury fund group 8153, was authorized by the Superfund Amendments and Reauthorization Act of 1986 (SARA) as amended by the Omnibus Budget Reconciliation Act of 1990. The LUST appropriation provides funding to respond to releases from leaking underground petroleum tanks. The Agency oversees cleanup and enforcement programs which are implemented by the states. Funds are allocated to the states through cooperative agreements to clean up those sites posing the greatest threat to human health and the environment. Funds are used for grants to non-state entities including Indian tribes under Section 8001 of the Resource

Conservation and Recovery Act. The program is financed by a one cent per gallon tax on motor fuels which will expire in 2011.

***Superfund Trust Fund:*** In 1980, the Superfund Trust Fund, Treasury fund group 8145, was established by CERCLA to provide resources to respond to and clean up hazardous substance emergencies and abandoned, uncontrolled hazardous waste sites. The Superfund Trust Fund financing is shared by federal and state governments as well as industry. The EPA allocates funds from its appropriation to other Federal agencies to carry out CERCLA. Risks to public health and the environment at uncontrolled hazardous waste sites qualifying for the Agency's National Priorities List (NPL) are reduced and addressed through a process involving site assessment and analysis and the design and implementation of cleanup remedies. NPL cleanups and removals are conducted and financed by the EPA, private parties, or other Federal agencies. The Superfund Trust Fund includes Treasury's collections, special account receipts from settlement agreements, and investment activity.

#### **Other Earmarked Funds:**

***Oil Spill Response Trust Fund:*** The Oil Spill Response Trust Fund, Treasury fund group 8221, was authorized by the Oil Pollution Act of 1990 (OPA). Monies were appropriated to the Oil Spill Response Trust Fund in 1993. The Agency is responsible for directing, monitoring and providing technical assistance for major inland oil spill response activities. This involves setting oil prevention and response standards, initiating enforcement actions for compliance with OPA and Spill Prevention Control and Countermeasure requirements, and directing response actions when appropriate. The Agency carries out research to improve response actions to oil spills including research on the use of remediation techniques such as dispersants and bioremediation. Funding for oil spill cleanup actions is provided through the U.S. Coast Guard under the Oil Spill Liability Trust Fund and reimbursable funding from other Federal agencies.

***Miscellaneous Contributed Funds Trust Fund:*** The Miscellaneous Contributed Funds Trust Fund authorized in the Federal Water Pollution Control Act (Clean Water Act) as amended P.L. 92-500 (The Federal Water Pollution Control Act Amendments of 1972), Treasury fund group 8741, includes gifts for pollution control programs that are usually designated for a specific use by donors and/or deposits from pesticide registrants to cover the costs of petition hearings when such hearings result in unfavorable decisions to the petitioner.

***Pesticide Registration Fund:*** The Pesticide Registration Fund authorized by a 2004 Act, "Consolidated Appropriations Act (P.L. 108-199)," Treasury fund group 5374, was authorized in 2004 for the expedited processing of certain registration petitions and associated establishment of tolerances for pesticides to be used in or on food and animal feed. Fees covering these activities, as authorized under the FIFRA Amendments of 1988, are to be paid by industry and deposited into this fund group.

***Reregistration and Expedited Processing Fund:*** The Revolving Fund, Treasury fund group

4310, was authorized by the FIFRA of 1972, as amended by the FIFRA Amendments of 1988 and as amended by the Food Quality Protection Act of 1996. Pesticide maintenance fees are paid by industry to offset the costs of pesticide re-registration and reassessment of tolerances for pesticides used in or on food and animal feed, as required by law.

***Tolerance Revolving Fund:*** The Tolerance Revolving Fund, Treasury fund group 4311, was authorized in 1963 for the deposit of tolerance fees. Fees are paid by industry for Federal services to set pesticide chemical residue limits in or on food and animal feed. The fees collected prior to January 2, 1997 were accounted for under this fund. Presently collection of these fees is prohibited by statute, enacted in the Consolidated Appropriations Act, 2004 (P.L. 108-199).

***Exxon Valdez Settlement Fund:*** The Exxon Valdez Settlement Fund authorized by P.L. 102-389, “Making appropriations for the Department of Veterans Affairs and Housing and Urban Development, and for sundry independent agencies, boards, commissions, corporations, and offices for the fiscal year ending September 30, 1993,” Treasury fund group 5297, has funds available to carry out authorized environmental restoration activities. Funding is derived from the collection of reimbursements under the Exxon Valdez settlement as a result of an oil spill.

<p><b><i>Note 20. Exchange Revenues, Statement of Net Cost</i></b></p>
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Exchange, or earned revenues on the Statement of Net Cost include income from services provided, interest revenue (with the exception of interest earned on trust fund investments), and miscellaneous earned revenue. As of September 30, 2010 and 2009, exchange revenues are \$693.4 million and \$773.6 million respectively.

**Note 21. Intragovernmental Costs and Exchange Revenue**

	FY 2010			FY 2009		
	Intragovernm ental	With the Public	Total	Intragovern mental	With the Public	Total
<b>Clean Air</b>						
Program Costs	\$ 170,677	\$ 1,048,124	\$ 1,218,801	\$ 187,484	\$ 874,787	\$ 1,062,271
Earned Revenue	18,923	5,906	24,829	15,455	3,036	18,491
NET COST	\$ 151,754	\$ 1,042,218	\$ 1,193,972	\$ 172,029	\$ 871,751	\$ 1,043,780
<b>Clean and Safe Water</b>						
Program Costs	\$ 193,456	\$ 6,197,330	\$ 6,390,786	\$ 191,558	\$ 3,236,903	\$ 3,428,461
Earned Revenue	2,803	2,524	5,327	4,758	3,208	7,966
NET COSTS	\$ 190,653	\$ 6,194,806	\$ 6,385,459	\$ 186,800	\$ 3,233,695	\$ 3,420,495
<b>Land Preservation &amp; Restoration</b>						
Program Costs	\$ 342,734	\$ 2,096,211	\$ 2,438,945	\$ 386,549	\$ 1,821,301	\$ 2,207,850
Earned Revenue	103,687	446,569	550,256	101,767	580,119	681,886
NET COSTS	\$ 239,047	\$ 1,649,642	\$ 1,888,689	\$ 284,782	\$ 1,241,182	\$ 1,525,964
<b>Healthy Communities &amp; Ecosystems</b>						
Program Costs	\$ 293,850	\$ 1,265,653	\$ 1,559,503	\$ 271,028	\$ 1,134,155	\$ 1,405,183
Earned Revenue	64,034	44,144	108,178	20,047	42,267	62,314
NET COSTS	\$ 229,816	\$ 1,221,509	\$ 1,451,325	\$ 250,981	\$ 1,091,888	\$ 1,342,869
<b>Compliance &amp; Environmental Stewardship</b>						
Program Costs	\$ 182,299	\$ 615,931	\$ 798,230	\$ 207,660	\$ 609,538	\$ 817,198
Earned Revenue	3,400	1,494	4,894	4,071	(1,116)	2,955
NET COSTS	\$ 178,899	\$ 614,437	\$ 793,336	\$ 203,589	\$ 610,654	\$ 814,243
<b>Total</b>						
Program Costs	\$ 1,183,016	\$ 11,223,249	\$ 12,406,265	\$ 1,244,279	\$ 7,676,684	\$ 8,920,963
Earned Revenue	192,847	500,637	693,484	146,098	627,514	773,612
NET COSTS	\$ 990,169	\$ 10,722,612	\$ 11,712,781	\$ 1,098,181	\$ 7,049,170	\$ 8,147,351

Intragovernmental costs relate to the source of goods or services not the classification of the related revenue.

**Note 22. Cost of Stewardship Land**

There were no costs related to the acquisition of stewardship land for September 30, 2010 and approximately \$323 thousand for September 30, 2009. These costs are included in the Statement of Net Cost.

**Note 23. Environmental Cleanup Costs**

As of September 30, 2010, EPA has one site that requires clean up stemming from its activities. For sites that had previously been listed, it was determined by EPA's Office of General Counsel to discontinue reporting the potential environmental liabilities for the

following reasons: (1) although EPA has been put on notice that it is subject to a contribution claim under CERCLA, no direct demand for compensation has been made to EPA; (2) any demand against EPA will be resolved only after the Superfund cleanup work is completed, which may be years in the future; and (3) there was no legal activity on these matters in FY2009 or in FY2010. During FY2009, costs amounting to approximately \$53 thousand were paid out by the Treasury Judgment Fund for another site, and no further action is warranted.

EPA also holds title to a site in Edison, New Jersey which was formerly an Army Depot. While EPA did not cause the contamination, the Agency could potentially be liable for a portion of the cleanup costs, an unfunded environmental liability of \$200 thousand.

#### Accrued Cleanup Cost:

EPA has 15 sites that will require permanent closure, and EPA is responsible to fund the environmental cleanup of those sites. As of September 30, 2010 and 2009, the estimated costs for site cleanup were \$20.15 million and \$19.49 million, respectively. Since the cleanup costs associated with permanent closure were not primarily recovered through user fees, EPA has elected to recognize the estimated total cleanup cost as a liability and record changes to the estimate in subsequent years.

#### ***Note 24. State Credits***

Authorizing statutory language for Superfund and related Federal regulations requires states to enter into Superfund State Contracts (SSC) when EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that it will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will provide EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA-approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. The credit is limited to state site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-Federal funds for remedial action.

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2010 and 2009, the total remaining state credits have been estimated at \$21.0 million and \$21.9 million, respectively.

#### ***Note 25. Preauthorized Mixed Funding Agreements***

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2010, EPA had 6 outstanding preauthorized mixed funding agreements with obligations totaling \$15.6 million. As of September 30, 2009, EPA had 9 for \$19.9 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

***Note 26. Custodial Revenues and Accounts Receivable***

		<b><u>FY 2010</u></b>	<b><u>FY 2009</u></b>
<b>Fines, Penalties and Other Miscellaneous Receipts</b>	<b>\$</b>	<b><u>89,627</u></b>	<b><u>\$ 103,924</u></b>
<b>Accounts Receivable for Fines, Penalties and Other Miscellaneous Receipts:</b>			
Accounts Receivable	\$	229,658	238,957
Less: Allowance for Uncollectible Accounts		(181,153)	(174,411)
<b>Total</b>	<b>\$</b>	<b><u>48,505</u></b>	<b><u>\$ 64,546</u></b>

EPA uses the accrual basis of accounting for the collection of fines, penalties and miscellaneous receipts. Collectability by EPA of the fines and penalties is based on the PRPs' willingness and ability to pay.

***Note 27. Reconciliation of President's Budget to the Statement of Budgetary Resources***

Budgetary resources, obligations incurred and outlays, as presented in the audited FY 2010 Statement of Budgetary Resources will be reconciled to the amounts included in the FY 2011 Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2010 has not yet been published. We expect it will be published by early 2011, and it will be available on the OMB website at <http://www.whitehouse.gov/>.

The actual amounts published for the year ended September 30, 2009 are listed immediately below:



<b>FY 2009</b>	<b>Budgetary Resources</b>	<b>Obligations</b>	<b>Offsetting Receipts</b>	<b>Net Outlays</b>
<b>Statement of Budgetary Resources</b>	<b>\$ 21,014,069</b>	<b>\$ 17,311,047</b>	<b>\$ 1,884,134</b>	<b>\$ 9,950,864</b>
Adjustments to Undelivered Orders and Others	844	(404)		(2)
Expired and Immaterial Funds*	(251,035)	(37)		5
Rounding Differences**	(8,878)	(5,606)	(134)	133
<b>Reported in Budget of the U. S. Government</b>	<b>\$ 20,755,000</b>	<b>\$ 17,305,000</b>	<b>\$ 1,884,000</b>	<b>\$ 9,951,000</b>

\* Expired funds are not included in Budgetary Resources Available for Obligation and Total New Obligations in the Budget Appendix (lines 23.90 and 10.00). Also, minor funds are not included in the Budget Appendix.

\*\* Balances are rounded to millions in the Budget Appendix.

***Note 28. Recoveries and Resources Not Available, Statement of Budgetary Resources***

Recoveries of Prior Year Obligations, Temporarily Not Available, and Permanently Not Available on the Statement of Budgetary Resources consist of the following amounts for September 30, 2010 and 2009:

	<b><u>FY 2010</u></b>	<b><u>FY 2009</u></b>
Recoveries of Prior Year Obligations - Downward adjustments of prior years' obligations	\$ 277,771	\$ 220,329
Temporarily Not Available - Rescinded Authority	(11,800)	-
Permanently Not Available:		
Payments to Treasury	(5,191)	(3,180)
Rescinded authority	(52,897)	(10,000)
Canceled authority	(15,365)	(19,552)
<b>Total Permanently Not Available</b>	<b>\$ (73,453)</b>	<b>\$ (32,732)</b>

***Note 29. Unobligated Balances Available***

Unobligated balances are a combination of two lines on the Statement of Budgetary Resources: Apportioned, Unobligated Balances and Unobligated Balances Not Available. Unexpired unobligated balances are available to be apportioned by the OMB for new obligations at the beginning of the following fiscal year. The expired unobligated balances are only available for upward adjustments of existing obligations.

The unobligated balances available consist of the following as of September 30, 2010 and 2009:

		<b>FY 2010</b>		<b>FY 2009</b>
Unexpired Unobligated Balance	\$	4,441,115	\$	3,452,750
Expired Unobligated Balance		185,226		250,272
<b>Total</b>	<b>\$</b>	<b>4,626,341</b>	<b>\$</b>	<b>3,703,022</b>

***Note 30. Undelivered Orders at the End of the Period***

Budgetary resources obligated for undelivered orders at September 30, 2010 and 2009 were \$12.63 billion and \$14.69 billion, respectively.

***Note 31. Offsetting Receipts***

Distributed offsetting receipts credited to the general fund, special fund, or trust fund receipt accounts offset gross outlays. For FY 2010 and 2009, the following receipts were generated from these activities:

		<b>FY 2010</b>		<b>FY 2009</b>
Trust Fund Recoveries	\$	53,247	\$	96,782
Special Fund Environmental Service		41,599		20,539
Downward Re-estimates of Subsidies		51		5
Trust Fund Appropriation		1,280,570		1,747,911
Special Fund Receipt Account and Treasury				
Miscellaneous Receipt and Clearing Accounts		27,493		18,897
<b>Total</b>	<b>\$</b>	<b>1,402,960</b>	<b>\$</b>	<b>1,884,134</b>

***Note 32. Transfers-In and Out, Statement of Changes in Net Position***

**Appropriation Transfers, In/Out:**

For FY 2010 and 2009, the Appropriation Transfers under Budgetary Financing Sources on the Statement of Changes in Net Position are comprised of non-expenditure transfers that affect Unexpended Appropriations for non-invested appropriations. These amounts are included in the Budget Authority, Net Transfers and Prior Year Unobligated Balance, Net Transfers lines on the Statement of Budgetary Resources. Details of the Appropriation Transfers on the Statement of Changes in Net Position and reconciliation with the Statement of Budgetary Resources follows for September 30, 2010 and 2009:

**Transfers In/Out Without Reimbursement, Budgetary:**

<b>Fund/Type of Account</b>	<b>FY 2010</b>	<b>FY 2009</b>
Army Corps of Engineers	\$ (9,000)	\$ (8,000)
U.S. Navy	(8,000)	(8,000)
Small Business Administration		(2,953)
Total Appropriation Transfers (Other Funds)	(17,000)	(10,953)
Net Transfers from Invested Funds	1,386,345	1,382,030
Transfers to Another Agency	(17,000)	(10,953)
Allocations Rescinded	\$ -	\$ -
Total of Net Transfers on Statement of Budgetary Resources	\$ <b>1,369,345</b>	\$ <b>1,371,077</b>

For FY 2010 and 2009, Transfers In/Out under Budgetary Financing Sources on the Statement of Changes in Net Position consist of transfers to or from other Federal agencies and between EPA funds. These transfers affect Cumulative Results of Operations. Details of the transfers-in and transfers-out, expenditure and nonexpenditure, follows for September 30, 2010 and 2009:

<b>Type of Transfer/Funds</b>	<b>FY 2010</b>		<b>FY 2009</b>	
	<b>Earmarked</b>	<b>Other Funds</b>	<b>Earmarked</b>	<b>Other Funds</b>
Transfers-in (out) nonexpenditure, Earmark to S&T and OIG funds	\$ (39,168)	\$ 33,859	\$ (57,392)	\$ 57,392
Transfer-in nonexpenditure recovery from CDC			-	-
Transfers-in nonexpenditure, Oil Spill	18,379		17,687	-
Transfer-in (out) cancelled funds			-	-
Total Transfer in (out) without Reimbursement, Budgetary	\$ <b>(20,789)</b>	\$ <b>33,859</b>	\$ <b>(39,705)</b>	\$ <b>57,392</b>

#### **Transfers In/Out without Reimbursement, Other Financing Sources:**

For FY 2010 and 2009, Transfers In/Out without Reimbursement under Other Financing Sources on the Statement of Changes in Net Position are comprised of negative subsidy to a special receipt fund for the credit reform funds.

The amounts reported on the Statement of Changes in Net Position are as follows for September 30, 2010 and 2009:

Type of Transfer/Funds	FY 2010		FY 2009	
	Earmark	Other Funds	Earmark	Other Funds
Transfers-in by allocation transfer agency	\$	\$	\$ 84	\$ -
Transfers-in property		341	-	46
Transfers (out) of prior year negative subsidy to be paid following year		205	-	(740)
Total Transfer in (out) without Reimbursement, Budgetary	\$ -	\$ 546	\$ 84	\$ (694)

### ***Note 33. Imputed Financing***

In accordance with SFFAS No. 5, “Accounting for Liabilities of the Federal Government,” Federal agencies must recognize the portion of employees’ pensions and other retirement benefits to be paid by the OPM trust funds. These amounts are recorded as imputed costs and imputed financing for each agency. Each year the OPM provides Federal agencies with cost factors to calculate these imputed costs and financing that apply to the current year. These cost factors are multiplied by the current year’s salaries or number of employees, as applicable, to provide an estimate of the imputed financing that the OPM trust funds will provide for each agency. The estimates for FY 2010 were \$146.8 million (\$23.7 million from Earmarked funds, and \$123.1 million from Other Funds). For FY 2009, the estimates were \$197.8 million (\$25.1 million from Earmarked funds, and \$172.7 million from Other Funds).

SFFAS No. 4, “Managerial Cost Accounting Standards and Concepts” and SFFAS No. 30, “Inter-Entity Cost Implementation,” requires Federal agencies to recognize the costs of goods and services received from other Federal entities that are not fully reimbursed, if material. EPA estimates imputed costs for inter-entity transactions that are not at full cost and records imputed costs and financing for these unreimbursed costs subject to materiality. EPA applies its Headquarters General and Administrative indirect cost rate to expenses incurred for inter-entity transactions for which other Federal agencies did not include indirect costs to estimate the amount of unreimbursed (i.e., imputed) costs. For FY 2010 total imputed costs were \$10.8 million (\$3.3 million from Earmarked funds, and \$7.5 million from Other Funds).

In addition to the pension and retirement benefits described above, EPA also records imputed costs and financing for Treasury Judgment Fund payments made on behalf of the Agency. Entries are made in accordance with the Interpretation of Federal Financial Accounting Standards No. 2, “Accounting for Treasury Judgment Fund Transactions.” For FY 2010 entries for Judgment Fund payments totaled \$4.0 million (Other Funds). For FY 2009, entries for Judgment Fund payments totaled \$3.7 million (Other Funds).

The combined total of imputed financing sources for FY 2010 and FY 2009 is \$161.6 million and \$213.3 million, respectively.

***Note 34. Payroll and Benefits Payable***

Payroll and benefits payable to EPA employees for the years ending September 30, 2010 and 2009 consist of the following:

<b>FY 2010 Payroll &amp; Benefits Payable</b>		<b>Covered by Budgetary Resources</b>		<b>Not Covered by Budgetary Resources</b>	<b>Total</b>
Accrued Funded Payroll & Benefits	\$	66,677	\$	-	\$ 66,677
Withholdings Payable		31,298		-	31,298
Employer Contributions Payable-TSP		3,588		-	3,588
Accrued Unfunded Annual Leave		-		163,412	163,412
<b>Total - Current</b>	<b>\$</b>	<b>101,563</b>	<b>\$</b>	<b>163,412</b>	<b>\$ 264,975</b>
<b>FY 2009 Payroll &amp; Benefits Payable</b>					
Accrued Funded Payroll and Benefits	\$	57,004	\$	-	\$ 57,004
Withholdings Payable		31,307		-	31,307
Employer Contributions Payable-TSP		3,177		-	3,177
Accrued Unfunded Annual Leave		-		159,129	159,129
<b>Total - Current</b>	<b>\$</b>	<b>91,488</b>	<b>\$</b>	<b>159,129</b>	<b>\$ 250,617</b>

***Note 35. Other Adjustments, Statement of Changes in Net Position***

The Other Adjustments under Budgetary Financing Sources on the Statement of Changes in Net Position consist of rescissions to appropriated funds and cancellation of funds that expired 5 years earlier. These amounts affect Unexpended Appropriations.

		<b>Other Funds FY 2010</b>	<b>Other Funds FY 2009</b>
Rescissions to General Appropriations	\$	50,623	\$ 29,551
Canceled General Authority		15,366	-
<b>Total Other Adjustments</b>	<b>\$</b>	<b>65,989</b>	<b>\$ 29,551</b>

<b><i>Note 36. Non-exchange Revenue, Statement of Changes in Net Position</i></b>
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Non-exchange Revenue, Budgetary Financing Sources, on the Statement of Changes in Net Position as of September 30, 2010 and 2009 consists of the following items:

		<b>Earmarked Funds</b>		<b>Earmarked Funds</b>
		<b><u>FY 2010</u></b>		<b><u>FY 2009</u></b>
Interest on Trust Fund	\$	130,504	\$	176,168
Tax Revenue, Net of Refunds		172,127		169,186
Fines and Penalties Revenue		261		(1,479)
Special Receipt Fund Revenue		41,596		20,538
<b>Total Nonexchange Revenue</b>	<b>\$</b>	<b>344,488</b>	<b>\$</b>	<b>364,413</b>



<b>Note 38. Amounts Held by Treasury (UNAUDITED)</b>
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Amounts held by Treasury for future appropriations consist of amounts held in trusteeship by Treasury in the Superfund and LUST Trust Funds.

### Superfund

Superfund is supported by general revenues, cost recoveries of funds spent to clean up hazardous waste sites, interest income, and fines and penalties.

The following reflects the Superfund Trust Fund maintained by Treasury as of September 30, 2010 and 2009. The amounts contained in these notes have been provided by Treasury. As indicated, a portion of the outlays represents amounts received by EPA's Superfund Trust Fund; such funds are eliminated on consolidation with the Superfund Trust Fund maintained by Treasury.

<b>SUPERFUND FY 2010</b>		<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>				
Uninvested Fund Balance	\$	-	\$ 4,234,294	\$ 4,234,294
Total Undisbursed Balance		-	4,234,294	4,234,294
Interest Receivable		-	4,442,724	4,442,724
Investments, Net		3,526,671,825	209,585,595	3,736,257,420
<b>Total Assets</b>	\$	3,526,671,825	\$ 218,262,613	\$ 3,744,934,438
<b>Liabilities &amp; Equity</b>				
Equity	\$	3,526,671,825	\$ 218,262,613	\$ 3,744,934,438
<b>Total Liabilities and Equity</b>	\$	3,526,671,825	\$ 218,262,613	\$ 3,744,934,438
<b>Receipts</b>				
Corporate Environmental		-	3,137,141	3,137,141
Cost Recoveries		-	53,246,618	53,246,618
Fines & Penalties		-	3,451,837	3,451,837
Total Revenue		-	59,835,596	59,835,596
Appropriations Received		-	1,280,570,288	1,280,570,288
Interest Income		-	14,967,685	14,967,685
<b>Total Receipts</b>	\$	-	\$ 1,355,373,569	\$ 1,355,373,569
<b>Outlays</b>				
Transfers to/from EPA, Net	\$	1,308,704,084	\$ (1,308,704,084)	\$ -
<b>Total Outlays</b>		1,308,704,084	(1,308,704,084)	-
<b>Net Income</b>	\$	<b>1,308,704,084</b>	<b>\$ 46,669,485</b>	<b>\$ 1,355,373,569</b>

In FY 2010, the EPA received an appropriation of \$1.28 billion for Superfund. Treasury's Bureau of Public Debt (BPD), the manager of the Superfund Trust Fund assets, records a



liability to EPA for the amount of the appropriation. BPD does this to indicate those trust fund assets that have been assigned for use and, therefore, are not available for appropriation. As of September 30, 2010 and 2009, the Treasury Trust Fund has a liability to EPA for previously appropriated funds of \$3.53 billion and \$3.28 billion, respectively.

<b>SUPERFUND FY 2009</b>		<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>				
Uninvested Fund Balance	\$	-	\$ (7,975)	\$ (7,975)
Total Undisbursed Balance		-	(7,975)	(7,975)
Interest Receivable		-	19,624	19,624
Investments, Net		3,277,721	159,991	3,437,712
<b>Total Assets</b>	\$	<b>3,277,721</b>	<b>171,640</b>	<b>\$ 3,449,361</b>
<b>Liabilities &amp; Equity</b>				
Receipts and Outlays		-		-
Equity	\$	3,277,721	\$ 171,640	\$ 3,449,361
<b>Total Liabilities and Equity</b>	\$	<b>3,277,721</b>	<b>\$ 171,640</b>	<b>\$ 3,449,361</b>
<b>Receipts</b>				
Cost Recoveries	\$	-	\$ 96,782	\$ 96,782
Fines & Penalties		-	1,374	1,374
Total Revenue		-	98,156	98,156
Appropriations Received		-	1,747,911	1,747,911
Interest Income		-	52,064	52,064
<b>Total Receipts</b>	\$	<b>-</b>	<b>\$ 1,898,131</b>	<b>\$ 1,898,131</b>
<b>Outlays</b>				
Transfers to/from EPA, Net	\$	1,905,845	\$ (1,905,845)	\$ -
<b>Total Outlays</b>		<b>1,905,845</b>	<b>(1,905,845)</b>	<b>-</b>
<b>Net Income</b>	\$	<b>1,905,845</b>	<b>\$ (7,714)</b>	<b>\$ 1,898,131</b>

## LUST

LUST is supported primarily by a sales tax on motor fuels to clean up LUST waste sites. In FY 2010 and 2009, there were no fund receipts from cost recoveries. The following represents the LUST Trust Fund as maintained by Treasury. The amounts contained in these notes are provided by Treasury. Outlays represent appropriations received by EPA's LUST Trust Fund; such funds are eliminated on consolidation with the LUST Trust Fund maintained by Treasury.

<b>LUST FY 2010</b>		<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>				
Uninvested Fund Balance	\$	-	\$ (5,349,000)	\$ (5,349,000)
Total Undisbursed Balance		-	(5,349,000)	(5,349,000)
Interest Receivable		-	20,815,275	20,815,275
Investments, Net		210,146,189	3,271,951,525	3,482,097,714
<b>Total Assets</b>	\$	<u>210,146,189</u>	<u>\$ 3,287,417,800</u>	<u>\$ 3,497,563,989</u>
<b>Liabilities &amp; Equity</b>				
<b>Equity</b>	\$	<u>210,146,189</u>	<u>\$ 3,287,417,800</u>	<u>\$ 3,497,563,989</u>
<b>Receipts</b>				
Highway TF Tax	\$	-	\$ 158,254,000	\$ 158,254,000
Airport TF Tax		-	10,685,000	10,685,000
Inland TF Tax		-	51,000	51,000
Total Revenue		-	168,990,000	168,990,000
Interest Income		-	115,523,147	115,523,147
<b>Total Receipts</b>	\$	<u>-</u>	<u>\$ 284,513,147</u>	<u>\$ 284,513,147</u>
<b>Outlays</b>				
Transfers to/from EPA, Net	\$	103,901,000	\$ (103,901,000)	\$ -
<b>Total Outlays</b>		<u>103,901,000</u>	<u>(103,901,000)</u>	<u>-</u>
<b>Net Income</b>	\$	<u><b>103,901,000</b></u>	<u><b>180,612,147</b></u>	<u><b>284,513,147</b></u>

<b>LUST FY 2009</b>		<b>EPA</b>	<b>Treasury</b>	<b>Combined</b>
<b>Undistributed Balances</b>				
Uninvested Fund Balance	\$	-	\$ (10,359)	\$ (10,359)
Total Undisbursed Balance		-	(10,359)	(10,359)
Interest Receivable		-	22,838	22,838
Investments, Net		305,445	3,094,325	3,399,770
<b>Total Assets</b>	\$	<b>305,445</b>	<b>3,106,804</b>	<b>3,412,249</b>
<b>Liabilities &amp; Equity</b>				
<b>Equity</b>	\$	<b>305,445</b>	<b>3,106,804</b>	<b>3,412,249</b>
<b>Receipts</b>				
Highway TF Tax	\$	-	\$ 159,719	\$ 159,719
Airport TF Tax		-	9,454	9,454
Inland TF Tax		-	13	13
Total Revenue		-	169,186	169,186
Interest Income		-	124,087	124,087
<b>Total Receipts</b>	\$	<b>-</b>	<b>293,273</b>	<b>293,273</b>
<b>Outlays</b>				
Transfers to/from EPA, Net	\$	312,577	\$ (312,577)	\$ -
<b>Total Outlays</b>		<b>312,577</b>	<b>(312,577)</b>	<b>-</b>
<b>Net Income</b>	\$	<b>312,577</b>	<b>(19,304)</b>	<b>293,273</b>

***Note 39. Antideficiency Act Violation Reported in 2010***

During FY 2004, EPA awarded a contract in the amount of \$194 thousand for the analysis of drinking-water. The funding was available for FY 2004 and FY 2005. The contract performance period crossed three fiscal years, FY 2004, FY 2005, and FY 2006. As a result, the obligation of funds went beyond the appropriation resulting in an Antideficiency Act violation. On July 14, 2010 EPA transmitted, as required by OMB Circular A-11, Section 145, written notifications to the (1) President, (2) President of the Senate, (3) Speaker of the House of Representatives, (4) Comptroller General, and (5) the Director of OMB.

## **Required Supplementary Information (Unaudited)**

### **Environmental Protection Agency**

**As of September 30, 2010**

**(Dollars in Thousands)**

#### **1. Deferred Maintenance**

Deferred maintenance is maintenance that was not performed when it should have been, that was scheduled and not performed, or that was delayed for a future period. Maintenance is the act of keeping property, plant, and equipment (PP&E) in acceptable operating condition and includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it can deliver acceptable performance and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to serve needs different from or significantly greater than those originally intended.

The EPA classifies tangible property, plant, and equipment as follows: (1) EPA-Held Equipment, (2) Contractor-Held Equipment, (3) Land and Buildings, and, (4) Capital Leases. The condition assessment survey method of measuring deferred maintenance is utilized. The Agency adopts requirements or standards for acceptable operating condition in conformance with industry practices. No deferred maintenance was reported for any of the four categories.

#### **2. Stewardship Land**

Stewardship land is acquired as contaminated sites in need of remediation and clean-up; thus the quality of the land is far-below the standard for usable and manageable land. Easements on stewardship lands are in good and usable condition but acquired in order to gain access to contaminated sites.

**Required Supplementary Information (Unaudited)**  
**Environmental Protection Agency**  
**As of September 30, 2010**  
**(Dollars in Thousands)**

**3. Supplemental Combined Statement of Budgetary Resources**  
**For the Period Ending September 30, 2010**

BUDGETARY RESOURCE	EPM	FIFRA	LUST	S&T	STAG	OTHER	TOTAL
Unobligated Balance Brought Forward, October 1	\$ 596,033	\$ 4,163	\$ 13,113	\$ 230,607	\$ 1,135,800	\$ 1,723,306	\$ 3,703,022
Recoveries of prior year unpaid obligations	32,763		7,137	5,155	55,779	176,938	277,771
Budgetary Authority:							
Appropriation	2,993,779		-	848,049	4,978,223	1,436,115	10,256,166
Borrowing Authority						52	52
Spending Authority from Offsetting Collections:							
Collected	98,534	23,237	36	12,260	4,719	780,000	918,786
Change in receivables from Federal sources	(2,786)	-		(116)	-	1,157	(1,746)
Advance received	(6,687)	(1,151)	-	(5,677)		248,074	234,559
Without advance from Federal source	(174,170)	-		(947)	-	42,629	(132,489)
Expenditure Transfers from trust funds	-			26,834		9,975	36,809
Nonexpenditure transfers, net anticipated and actual	(9,070)		113,101	-	(7,930)	1,273,244	1,369,345
Temporarily not available pursuant to Public Law			(9,200)			(2,600)	(11,800)
Permanently not available	(17,715)			(7,137)	(38,796)	(9,806)	(73,453)
<b>Total Budgetary Resources</b>	<b>\$ 3,510,680</b>	<b>\$ 26,249</b>	<b>\$ 124,186</b>	<b>\$ 1,109,028</b>	<b>\$ 6,127,795</b>	<b>\$ 5,679,083</b>	<b>\$ 16,577,022</b>
<b>STATUS OF BUDGETARY RESOURCES</b>							
Obligations Incurred:							
Direct	\$ 2,996,093	\$ -	\$ 117,024	\$ 846,166	\$ 4,410,501	\$ 2,890,669	\$ 11,260,452
Reimbursable	33,158	24,473	-	9,663	-	622,935	690,229
Total Obligations Incurred	3,029,250	24,473	117,024	855,829	4,410,501	3,513,604	11,950,681
Unobligated Balances:							
Unobligated funds apportioned	342,894	1,776	7,058	202,007	1,717,294	2,159,783	4,430,813
Unobligated balance not available	138,536	0	105	51,191	(0)	5,697	195,528
<b>Total Status of Budgetary Resources</b>	<b>\$ 3,510,680</b>	<b>\$ 26,249</b>	<b>\$ 124,186</b>	<b>\$ 1,109,028</b>	<b>\$ 6,127,795</b>	<b>\$ 5,679,083</b>	<b>\$ 16,577,022</b>
<b>CHANGE IN OBLIGATED BALANCE</b>							
<b>Obligated Balance, Net</b>							
Unpaid obligations brought forward, October 1	\$ 878,039	\$ 2,990	\$ 327,859	\$ 423,294	\$ 12,136,931	\$ 2,019,276	\$ 15,788,389
Less: Uncollected customer payments from Federal sources brought forward, October 1	(333,906)	-		(36,245)	-	(203,673)	(573,824)
Total unpaid obligation balance, net	544,133	2,990	327,859	387,048	12,136,931	1,815,603	15,214,565
Obligations incurred net	3,029,250	24,473	117,024	855,829	4,410,501	3,513,604	11,950,681
Less: Gross outlays	(2,655,567)	(25,036)	(174,282)	(862,403)	(6,410,218)	(3,460,886)	(13,588,391)
Less: Recoveries of prior year unpaid obligations, actual	(32,763)		(7,137)	(5,155)	(55,779)	(176,938)	(277,771)
Change in uncollected customer payments from Federal sources	176,957	-		1,181	-	(44,268)	133,869
Total	1,062,011	2,427	263,464	376,500	10,081,435	1,647,114	13,432,953
Obligated Balance, net, end of period:							
Unpaid obligations	1,218,961	2,427	263,464	411,565	10,081,435	1,895,056	13,872,909
Less: Uncollected customer payments from Federal sources	(156,949)	-		(35,065)	-	(247,942)	(439,956)
Total, unpaid obligated balance, net, end of period	\$ 1,062,012	\$ 2,427	\$ 263,464	\$ 376,500	\$ 10,081,435	\$ 1,647,114	\$ 13,432,953
<b>NET OUTLAYS</b>							
Gross outlays	\$ 2,655,567	\$ 25,036	\$ 174,282	\$ 862,403	\$ 6,410,218	\$ 3,460,886	\$ 13,588,391
Less: Offsetting collections	(91,847)	(22,086)	(36)	(33,534)	(4,719)	(1,037,566)	(1,189,788)
Less: Distributed Offsetting Receipts						(1,402,960)	(1,402,960)
<b>Total, Net Outlays</b>	<b>\$ 2,563,720</b>	<b>\$ 2,950</b>	<b>\$ 174,247</b>	<b>\$ 828,869</b>	<b>\$ 6,405,499</b>	<b>\$ 1,020,359</b>	<b>\$ 10,995,643</b>

**Environmental Protection Agency  
Required Supplemental Stewardship Information  
For the Year Ended September 30, 2010  
(Dollars in Thousands)**

***INVESTMENT IN THE NATION'S RESEARCH AND DEVELOPMENT:***

EPA's Office of Research and Development provides the scientific basis for EPA decision-making by conducting cutting-edge science and technical analysis to assist in the development of sustainable solutions to our environmental problems and more innovative and effective approaches to reducing environmental risks. EPA is unique among scientific institutions in combining research, analysis, and the integration of scientific information across the full spectrum of health and ecological issues and across the risk assessment and risk management paradigm. Research enables us to assess and identify the most important sources of risk to human health and the environment and by so doing, informs our priority-setting, ensures credibility for our policies, and guides our deployment of resources.

Among the Agency's highest priorities are research programs that address: the development of alternative techniques for prioritizing chemicals for further testing through computational toxicology; the environmental effects on children's health; the potential risks and effects of manufactured nanomaterials on human health and the environment; the impacts of global change and providing information to policy makers to help them adapt to a changing climate; the potential risks of unregulated contaminants in drinking water; the development of recreational water quality criteria; the health effects of air pollutants such as particulate matter; the protection of the nation's ecosystems; and the provision of near-term, appropriate, affordable, reliable, tested, and effective technologies and guidance for potential threats to homeland security. EPA also supports regulatory decision-making with chemical risk assessments.

For FY 2010, the full cost of the Agency's Research and Development activities totaled over \$663M. Below is a breakout of the expenses (dollars in thousands):

	<u>FY 2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>
Programmatic Expenses	\$630,438	\$624,088	\$597,080	\$600,552	\$590,790
Allocated Expenses	\$104,167	\$100,553	\$103,773	\$119,630	\$71,958

Each of EPA's strategic goals has a Science and Research Objective.

***INVESTMENT IN THE NATION'S INFRASTRUCTURE:***

The Agency makes significant investments in the nation's drinking water and clean water infrastructure. The investments are the result of three programs: the Construction Grants Program which is being phased out and two State Revolving Fund (SRF) programs.

Construction Grants Program: During the 1970s and 1980s, the Construction Grants Program was a source of Federal funds, providing more than \$60 billion of direct grants for the

construction of public wastewater treatment projects. These projects, which constituted a significant contribution to the nation's water infrastructure, included sewage treatment plants, pumping stations, and collection and intercept sewers, rehabilitation of sewer systems, and the control of combined sewer overflows. The construction grants led to the improvement of water quality in thousands of municipalities nationwide.

Congress set 1990 as the last year that funds would be appropriated for Construction Grants. Projects funded in 1990 and prior will continue until completion. After 1990, EPA shifted the focus of municipal financial assistance from grants to loans that are provided by State Revolving Funds.

State Revolving Funds: EPA provides capital, in the form of capitalization grants, to state revolving funds which state governments use to make loans to individuals, businesses, and governmental entities for the construction of wastewater and drinking water treatment infrastructure. When the loans are repaid to the state revolving fund, the collections are used to finance new loans for new construction projects. The capital is reused by the states and is not returned to the Federal Government.

The Agency also is appropriated funds to finance the construction of infrastructure outside the Revolving Funds. These are reported below as Other Infrastructure Grants.

The Agency's expenses related to investments in the nation's Water Infrastructure are outlined below (dollars in thousands):

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Construction Grants	\$39,193	\$9,975	\$11,517	\$30,950	\$13,009
Clean Water SRF	\$1,339,702	\$1,399,616	\$1,063,825	\$835,446	\$679,332
Safe Drinking Water SRF	\$910,032	\$962,903	\$816,038	\$906,803	\$733,804
Other Infrastructure Grants	\$411,023	\$381,481	\$388,555	\$306,366	\$229,632
Allocated Expenses	\$446,113	\$443,716	\$396,253	\$414,249	\$201,674

### ***HUMAN CAPITAL***

Agencies are required to report expenses incurred to train the public with the intent of increasing or maintaining the nation's economic productive capacity. Training, public awareness, and research fellowships are components of many of the Agency's programs and are effective in achieving the Agency's mission of protecting public health and the environment, but the focus is on enhancing the nation's environmental, not economic, capacity.

The Agency's expenses related to investments in the Human Capital are outlined below (dollars in thousands):

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Training and Awareness Grants	\$43,765	\$32,845	\$30,768	\$37,981	\$25,714

Fellowships	\$12,639	\$12,185	\$9,650	\$6,818	\$6,905
Allocated Expenses	\$9,320	\$7,255	\$7,025	\$8,924	\$3,973



**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**  
**Balance Sheet for Superfund Trust Fund**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**  
**(Unaudited)**

					FY 2010		FY 2009	
<b>ASSETS</b>								
Intragovernmental:								
Fund Balance With Treasury (Note S1)					\$	106,247	\$	62,631
Investments						3,740,700		3,457,338
Accounts Receivable, Net						27,323		20,694
Other						12,941		23,100
Total Intragovernmental					\$	3,887,211	\$	3,563,763
Accounts Receivable, Net						364,065		748,838
Property, Plant & Equipment, Net						101,714		81,216
Other						1,075		419
<b>Total Assets</b>					\$	<b>4,354,065</b>	\$	<b>4,394,236</b>
<b>LIABILITIES</b>								
Intragovernmental:								
Accounts Payable and Accrued Liabilities						45,641		47,787
Custodial Liability						-		187
Other						62,260		76,051
Total Intragovernmental					\$	107,901	\$	124,025
Accounts Payable & Accrued Liabilities					\$	178,045	\$	183,477
Pensions & Other Actuarial Liabilities						6,420		7,829
Cashout Advances, Superfund (Note S2)						636,673		572,412
Payroll & Benefits Payable						45,792		44,604
Other						38,736		45,353
Total Liabilities					\$	1,013,566	\$	977,700
<b>NET POSITION</b>								
Cumulative Results of Operations						3,340,498		3,416,536
Total Net Position						3,340,498		3,416,536
<b>Total Liabilities and Net Position</b>					\$	<b>4,354,065</b>	\$	<b>4,394,236</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**  
**Statement of Net Cost for Superfund Trust Fund**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**  
**(Unaudited)**

					FY 2010		FY 2009
<b>COSTS</b>							
	Gross Costs			\$	1,844,712	\$	1,672,246
	Expenses from Other Appropriations				30,349		130,931
	Total Costs				1,875,061		1,803,177
	Less:						
	Earned Revenue				484,165		615,577
<b>NET COST OF OPERATIONS</b>					<b>\$</b>	<b>\$</b>	<b>1,187,600</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**

**Statement of Changes in Net Position for Superfund Trust Fund**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**  
**(Unaudited)**

			<b>FY 2010 Earmarked Funds</b>	<b>FY 2009 Earmarked Funds</b>
<b>Cumulative Results of Operations:</b>				
<b>Net Position - Beginning of Period</b>			3,416,536	2,702,763
	Beginning Balances, as Adjusted	\$	3,416,536	\$ 2,702,763
<b>Budgetary Financing Sources:</b>				
	Nonexchange Revenue - Securities Investment		14,968	52,065
	Nonexchange Revenue - Other		3,396	(1,479)
	Transfers In/Out		(39,168)	(54,393)
	Trust Fund Appropriations		1,280,570	1,747,911
	Income from Other Appropriations		30,349	130,931
	Total Budgetary Financing Sources	\$	1,290,115	\$ 1,875,035
<b>Other Financing Sources (Non-Exchange)</b>				
	Transfers In/Out		-	(84)
	Imputed Financing Sources		24,743	26,422
	Total Other Financing Sources	\$	24,743	\$ 26,338
	Net Cost of Operations		(1,390,896)	(1,187,600)
	Net Change		(76,038)	713,773
	<b>Cumulative Results of Operations</b>	\$	<b>3,340,498</b>	<b>\$ 3,416,536</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**  
**Statement of Budgetary Resources for Superfund Trust Fund**  
**For the Periods Ending September 30, 2010 and 2009**

**(Dollars in Thousands)**  
**(Unaudited)**

		<b>FY 2010</b>	<b>FY 2009</b>
<b>BUDGETARY RESOURCES</b>			
Unobligated Balance, Brought Forward, October 1:	\$	1,605,363	\$ 1,513,176
Adjusted Subtotal		1,605,363	1,513,176
Recoveries of Prior Year Unpaid Obligations		171,423	118,278
Budgetary Authority:			
Appropriation		36,809	636,392
Borrowing Authority		-	-
Spending Authority from Offsetting Collections			
Earned:			
Collected		518,936	292,403
Change in Receivables from Federal Sources		47	1,401
Change in Unfilled Customer Orders:			
Advance Received		244,146	12,032
Without Advance from Federal Sources		4,423	4,574
Anticipated for Rest of Year, Without Advances		-	-
Previously Unavailable		-	-
Expenditure Transfers from Trust Funds		-	-
Total Spending Authority from Offsetting Collections		767,552	310,410
Nonexpenditure Transfers, Net, Anticipated and Actual		1,273,244	1,269,453
Temporarily Not Available Pursuant to Public Law		(2,600)	-
Permanently Not Available		(4,102)	-
<b>Total Budgetary Resources</b>	<b>\$</b>	<b>3,847,690</b>	<b>\$ 3,847,709</b>
<b>STATUS OF BUDGETARY RESOURCES</b>			
Obligations Incurred:			
Direct	\$	1,475,861	\$ 1,996,048
Reimbursable		312,141	246,297
Total Obligations Incurred		1,788,002	2,242,345
Unobligated Balances:			
Apportioned		2,058,813	1,593,443
Exempt from Apportionment		-	-
Total Unobligated Balances		2,058,813	1,593,443
Unobligated Balances Not Available		874	11,921
<b>Total Status of Budgetary Resources (Note S6)</b>	<b>\$</b>	<b>3,847,690</b>	<b>\$ 3,847,709</b>

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**  
**Statement of Budgetary Resources for Superfund Trust Fund**  
**For the Periods Ending September 30, 2010 and 2009**  
**(Dollars in Thousands)**  
**(Unaudited)**

		<b>FY 2010</b>	<b>FY 2009</b>
<b>CHANGE IN OBLIGATED BALANCE</b>			
Obligated Balance, Net:			
Unpaid Obligations, Brought Forward, October 1	\$	1,861,908	\$ 1,392,311
Adjusted Total		1,861,908	1,392,311
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1		(118,896)	(112,921)
Total Unpaid Obligated Balance, Net		1,743,012	1,279,390
Obligations Incurred, Net		1,788,002	2,242,345
Less: Gross Outlays		(1,785,572)	(1,654,470)
Obligated Balance Transferred, Net:			
Actual Transfers, Unpaid Obligations		-	-
Actual Transfers, Uncollected Customer Payments from Federal		-	-
Total Unpaid Obligated Balance Transferred, Net		-	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual		(171,423)	(118,278)
Change in Uncollected Customer Payments from Federal Sources		(4,471)	(5,975)
Total, Change in Obligated Balance		1,569,549	1,743,012
Obligated Balance, Net, End of Period:			
Unpaid Obligations		1,692,915	1,861,908
Less: Uncollected Customer Payments from Federal Sources		(123,366)	(118,896)
Total, Unpaid Obligated Balance, Net, End of Period	\$	1,569,549	\$ 1,743,012
<b>NET OUTLAYS</b>			
Net Outlays:			
Gross Outlays (Note S6)	\$	1,785,572	\$ 1,654,470
Less: Offsetting Collections (Note S6)		(763,081)	(304,434)
Less: Distributed Offsetting Receipts* (Note S6)		(53,247)	(1,244,694)
<b>Total, Net Outlays</b>	\$	969,244	\$ 105,342
Offsetting receipts line includes the amount in 68X0250 (payment to trust fund) from Treasury			
The payment cannot be made directly through the trust fund, but must go through a "pass-through" fund			

**The accompanying notes are an integral part of these financial statements.**

**Environmental Protection Agency**  
**Supplemental Information and Other Reporting Requirements**

**Related Notes to Superfund Trust Financial Statements  
For the Periods Ending September 30, 2010 and 2009  
(Dollars in Thousands)  
(Unaudited)**

***Note S1. Fund Balance with Treasury for Superfund Trust***

Fund Balances with Treasury for the Superfund as of September 30, 2010 and 2009 is \$106.2 million and \$62.63 million, respectively. Fund balances are available to pay current liabilities and to finance authorized purchase commitments (see Status of Fund Balances below).

<b>Status of Fund Balances:</b>	<b><u>FY 2010</u></b>	<b><u>FY 2009</u></b>
Unobligated Amounts in Fund Balance:		
Available for Obligation	\$ 2,058,813	\$ 1,593,443
Unavailable for Obligation	874	11,824
Net Receivables from Invested Balances	(3,526,672)	(3,277,674)
Balances in Treasury Trust Fund	(1,115)	(7,975)
Obligated Balance not yet Disbursed	<u>1,574,347</u>	<u>1,743,013</u>
<b>Totals</b>	<b>\$ <u>106,247</u></b>	<b>\$ <u>62,631</u></b>

The funds available for obligation may be apportioned by the OMB for new obligations at the beginning of the following fiscal year. Funds unavailable for obligation are mostly balances in expired funds, which are available only for adjustments of existing obligations.

***Note S2. Cashout Advances, Superfund***

Cashout Advances are funds received by EPA, a state, or another PRP under the terms of a settlement agreement (e.g., consent decree) to finance response action costs at a specified Superfund site. Under CERCLA Section 122(b)(3), cashout funds received by EPA are placed in site-specific, interest bearing accounts known as special accounts and are used for potential future work at such sites in accordance with the terms of the settlement agreement. Funds placed in special accounts may be disbursed to PRPs, to states that take responsibility for the site, or to other Federal agencies to conduct or finance response actions in lieu of EPA without further appropriation by Congress. As of September 30, 2010 and 2009, cashout advances are \$637 million and \$572 million.

***Note S3. Superfund State Credits***

Authorizing statutory language for Superfund and related Federal regulations require states to enter into SSCs when EPA assumes the lead for a remedial action in their state. The SSC defines the state's role in the remedial action and obtains the state's assurance that they will share in the cost of the remedial action. Under Superfund's authorizing statutory language, states will

provide EPA with a 10 percent cost share for remedial action costs incurred at privately owned or operated sites, and at least 50 percent of all response activities (i.e., removal, remedial planning, remedial action, and enforcement) at publicly operated sites. In some cases, states may use EPA approved credits to reduce all or part of their cost share requirement that would otherwise be borne by the states. Credit is limited to state site-specific expenses EPA has determined to be reasonable, documented, direct out-of-pocket expenditures of non-Federal funds for remedial action.

Once EPA has reviewed and approved a state's claim for credit, the state must first apply the credit at the site where it was earned. The state may apply any excess/remaining credit to another site when approved by EPA. As of September 30, 2010, the total remaining state credits have been estimated at \$20.9 million. The estimated ending credit balance on September 30, 2009 was \$21.9 million.

***Note S4. Superfund Preauthorized Mixed Funding Agreements***

Under Superfund preauthorized mixed funding agreements, PRPs agree to perform response actions at their sites with the understanding that EPA will reimburse them a certain percentage of their total response action costs. EPA's authority to enter into mixed funding agreements is provided under CERCLA Section 111(a)(2). Under CERCLA Section 122(b)(1), as amended by SARA, PRPs may assert a claim against the Superfund Trust Fund for a portion of the costs they incurred while conducting a preauthorized response action agreed to under a mixed funding agreement. As of September 30, 2010, EPA had 6 outstanding preauthorized mixed funding agreements with obligations totaling \$15.6 million. As of September 30, 2009, EPA had 9 for \$19.9 million. A liability is not recognized for these amounts until all work has been performed by the PRP and has been approved by EPA for payment. Further, EPA will not disburse any funds under these agreements until the PRP's application, claim, and claims adjustment processes have been reviewed and approved by EPA.

***Note S5. Income and Expenses from other Appropriations; General Support Services Charged to Superfund***

The Statement of Net Cost reports costs that represent the full costs of the program outputs. These costs consist of the direct costs and all other costs that can be directly traced, assigned on a cause and effect basis, or reasonably allocated to program outputs.

During FYs 2010 and 2009, the EPM appropriation funded a variety of programmatic and non-programmatic activities across the Agency, subject to statutory requirements. This appropriation was created to fund personnel compensation and benefits, travel, procurement, and contract activities. This distribution is calculated using a combination of specific identification of expenses to Reporting Entities, and a weighted average that distributes expenses proportionately to total programmatic expenses. As illustrated below, this estimate does not impact the consolidated totals of the Statement of Net Cost or the Statement of Changes in Net Position.

	FY 2010			FY 2009		
	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect	Income from Other Appropriations	Expenses from Other Appropriations	Net Effect
Superfund	\$ 30,349	(30,349)	\$ -	\$ 130,931	(130,931)	\$ -
All Others	(30,349)	30,349	-	(130,931)	130,931	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

In addition, the related general support services costs allocated to the Superfund Trust Fund from the S&T and EPM funds are \$194 thousand for FY 2010 and \$234 thousand for FY 2009.

***Note S6. Reconciliation of the Statement of Budgetary Resources to the President's Budget***

Budgetary resources, obligations incurred, and outlays, as presented in the audited FY 2009 Statement of Budgetary Resources, will be reconciled to the amounts included in the Budget of the United States Government when they become available. The Budget of the United States Government with actual numbers for FY 2010 has not yet been published. We expect it will be published by March 2011, and it will be available on the OMB website at <http://www.whitehouse.gov/omb/budget/fy20101>. The actual amounts published for the year ended September 30, 2009 are included in EPA's FY 2009 financial statement disclosures.

FY 2009	Budgetary Resources	Obligations	Offsetting Receipts	Net Outlays
Statement of Budgetary Resources	\$ 3,847,709	\$ 2,242,345	\$ 1,244,694	\$ 1,350,036
Rounding Differences**	(709)	(345)	(694)	(36)
<b>Reported in Budget of the U. S. Government</b>	<b>\$ 3,847,000</b>	<b>\$ 2,242,000</b>	<b>\$ 1,244,000</b>	<b>\$ 1,350,000</b>

\* Balances are rounded to millions in the Budget Appendix.

***Note S7. Superfund Eliminations***

The Superfund Trust Fund has intra-agency activities with other EPA funds which are eliminated on the consolidated Balance Sheet and the Statement of Net Cost. These are listed below:

	<b><u>FY 2010</u></b>	<b><u>FY 2009</u></b>
Advances	\$9,265	\$14,327
Expenditure Transfers Payable	\$25,555	\$25,189
Accrued Liabilities	\$2,214	\$2,991
Expenses	\$33,419	\$29,100
Transfers	\$38,016	\$54,392





## Appendix II

## Agency's Response to Draft Report

November 09, 2010

### MEMORANDUM

**SUBJECT:** Audit of EPA's Fiscal 2010 and 2009 Consolidated Financial Statements

**FROM:** Barbara J. Bennett /s/  
Chief Financial Officer

**TO:** Arthur A. Elkins, Jr.  
Inspector General

Fiscal Year 2010 marks another successful financial statements audit cycle for the U.S. Environmental Protection Agency. This year, we broadened Agency partnerships with a focus on strengthening fiscal integrity, enhancing core business operations, and contributing to Agency-wide performance management systems. We are proud of the many accomplishments and thank you for identifying additional areas for improvement in the draft Inspector General's Audit Report. The audit work performed will help shape future financial management initiatives.

Our offices worked together to expand stakeholder involvement, thereby engaging all parts of the Agency in fiscal stewardship yielding significant results. Attached are the Agency's responses to this audit report. Detailed corrective action plans will be provided to you and your staff within 90-days of the issuance of the final audit report. Please let me know if you have any questions, or your staff can contact Stefan Silzer, Acting Director, Office of Financial Management of 202-564-5389 regarding the audit.

Attachment

cc: Mark Bialek, Deputy Inspector General  
Craig E. Hooks, Assistant Administrator, Office of Administration and Resources Management  
Malcolm D. Jackson, Assistant Administrator, Office of Environmental Information  
Maryann Froehlich, Deputy Chief Financial Officer  
Melissa Heist, Assistant Inspector General  
Joshua Baylson, Associate Chief Financial Officer  
Stefan Silzer, Acting Director, Office of Financial Management  
Raffael Stein, Director, Office of Financial Services  
Paul Curtis, Director Financial Statements Audit  
Jim Wood, Director, Cincinnati Finance Center  
Stella Whitsell, Staff Director, Reporting and Analysis Staff  
Jeanne Conklin, Staff Director, Financial Policy and Planning Staff

**Attachment 1****Response to Draft Audit of EPA's Fiscal 2010 and 2009 Consolidated Financial Statements****1 - Further Improvements Needed in Reviewing the Superfund State Contract (SSC) Unearned Revenue Spreadsheets****Recommendations**

We recommend that the Office of the Chief Financial Officer (OCFO):

1. Work with the regions to review prior years' fund code "T" disbursements data on the SSC spreadsheets.

**Response: (Concur)**

Office of Financial Service (OFS) will work with the regions during the close out and reconciliation process described in recommendation 3 (of this Position Paper) and make necessary adjustments as a result of the regional review.

2. Work with the regions to review the spreadsheet data for the estimated site costs, state cost share, credits, and billings.

**Response: (Concur)**

OFS has reviewed and reconciled the site billing and disbursement data presented on the accrual spreadsheets as of the fourth quarter of fiscal 2010 and appropriate adjustments were made based on our review as well as additional issues identified by auditors. In fiscal 2011, OFS will continue to work with the regions to ensure the estimated site costs, state cost share, and credits are correctly reported on the accrual spreadsheets. OFS has made progress in this area working directly with some regions to ensure they understand how and when the data needs to be updated on the accrual spreadsheets for credits and state cost share. OFS will continue this effort with the remaining regions during fiscal 2011. In addition, OFS will request that the percentage of sites reviewed for regional A-123 SSC process be increased for the fiscal 2011 review.

3. Require regions to report to Cincinnati Finance Center (CFC) the SSC site closeout amounts, including the final actual site costs separated by "T" and "TR1" disbursements, final state share, and the amount of refund paid or final billing.

**Response: (Concur)**

OFS will continue its efforts to request the regions to complete the close out process for SSC sites that are listed as "closed" on the accrual spreadsheets. OFS will remind the regions quarterly to work on the "closed" sites and complete all financial and/or administrative actions that are needed. As part of the close out process, regions will be confirming and/or

adjusting various data on the accrual spreadsheets which will include the fund code 'T' and "TR1" disbursements.

4. Review the quarterly SSC spreadsheets to determine whether the site data are reasonable and the resulting site calculations are logical. Specifically, review the data for billings, credits, or unearned revenue in excess of state cost shares; no estimated site costs; no billings; reimbursable "TR1" expenses in excess of billings; and closed sites with accrued unbilled costs or unearned revenue.

**Response: (Concur)**

OFS will include additional reviews on the SSC accrual spreadsheets to address the potential concerns described in the Office of Inspector General (OIG) recommendations. These procedures will be included as part of the fiscal 2011 SSC accrual process.

**2- EPA Should Assess Collectability of Receivables and Record Any Needed Allowances for Doubtful Accounts.**

**Recommendations**

We recommend that the Office of the Chief Financial Officer require the Office of Financial Services to:

5. Establish a federal allowance for \$6.6 million, which remains on the Twin Cities site receivable.

**Response: (Non-Concur)**

OCFO has determined that the full \$12.9 Million is collectable in accordance with Statement of Federal Financial Accounting Standards Number 1, Accounting for Selected Assets and Liabilities. We have based our determination on the fact that the Department of Defense is seeking appropriated funds to partially cover their liability and has booked a \$12.9 Million liability. Therefore, EPA deems the entire \$12.9 million receivable to be collectable.

Your Agency	68	Select		Trading Partner	68	
Trading Partner	21	Select		Your Agency	21	
Recip Category	22	Select		Category	22	
Your Agency Data				Your Partner's Data		
Fund	FundTitle	SGL	Total	Fund	FundTitle	SGL Total
68008145	HAZARDOUS SUBSTANCE SUPERFUND	1310	13,021,672	21000021	ALL ARMY FUNDS	1310 66,424
68005555	UNAVAILABLE RECEIPTS ACCOUNTS	1310	37,601			2110 13,059,273
Grand Total			13,059,273	Grand Total		13,125,697

6. Review collectability of open federal accounts receivables and establish an allowance and/or write-off.

**Response: (Concur)**

CFC will review remaining open federal account receivables to ensure accurate status is reflected and reconcilable to the general ledger.

7. Establish procedures to ensure that CFC timely bills federal agencies within their authorized appropriation period.

**Response: (Concur)**

Procedures are in place to ensure the Finance Centers bill federal agencies within the authorized appropriation period. Environmental Protection Agency (EPA) Resource Management Directives System (RMDS) 2540-12, Intra-governmental Business Rules, <http://intranet.epa.gov/ocfo/policies/direct/2540-12.pdf> sets forth the Agency-wide financial policy for intra-governmental business rules. The policy states that intra-governmental business transactions will be processed, reconciled, and resolved in accordance with Treasury Financial Manual (TFM) Bulletin No. 2007-03 Section VI, Procurement Requirements, <http://www.fms.treas.gov/tfm/vol1/07-03.pdf>. The TFM Bulletin establishes that the agreement/order shall include "... (d) the effective date and duration of the agreement, to include the expiration of the funding source, (e) the amount and the method of payment, and (f) the method and frequency of performance (revenue and expenses) reporting.".

### **3 – Improvements Needed In Controls for Headquarters Personal Property**

We recommend that the Assistant Administrator for Administration and Resources Management require the Director, Facilities Management and Services Division, (FMSD) to:

#### **Recommendations**

8. Develop a management-level property management training course and require completion of the course by all EPA managers.

**Response: (Concur)**

FMSD is working to develop a mandatory, annual, on-line training course for all employees with special emphasis on roles and responsibilities of managers and supervisors. The course will provide vital information on property policy and procedures and provide notice to all employees regarding the potential for personal liability for property assigned to them. Course development will be completed in February 2011.

9. Adequately address and resolve the issue and determine why personal property items are missing.

**Response: (Concur; additional information provided)**

To establish some background, it should be noted that the personal property inventory process was disrupted during FY 2009 as a result of implementation of the Customer Technology Solutions (CTS) computer replacement project. The Headquarters' inventory conducted from January through May, 2010, presented the first opportunity to thoroughly review the impact of the CTS project on the property inventory. Unfortunately, the results of the inventory indicated that there were 2,272 items unaccounted for, with an original purchase value of \$6.3 million.

OARM took immediate steps to locate the missing items, and with the assistance and cooperation of Office of Environmental Information, has found 1,222 items or 54% of the outstanding items leaving 1,050 items remaining. As a result, the original purchase value at risk was reduced by \$4 million or 64% to the current total of \$2.2 million. OARM's efforts are continuing, and it is anticipated that most of the outstanding items will be located over the coming weeks, especially during the ongoing spot inventories.

Additional specific actions include: multiple re-inventories involving those custodial areas having missing items; re-inventories of numerous storage areas including those where CTS equipment has been stored; and collaboration with OEI on a separate inventory which is planned for completion in December.

OARM is continuing focused spot inventories which are expected to locate additional items and will begin the comprehensive FY2011 annual inventory process in January 2011. This effort will enable OARM to identify items that are unaccounted for as well as new items added to the inventory between October and January.

OARM has requested that the Headquarters Board of Survey (BOS) delay its review of items unaccounted for in FY 2010 for three months (October – January). The BOS is comprised of five employees from several Headquarters Program Offices and convenes at the end of each fiscal year to resolve missing property issues. This additional time will enable OARM to continue efforts to locate as many items as possible.

While the CTS project was a major factor, there were several additional factors which contributed to the unaccountable personal property at Headquarters. OARM is taking actions to address each of these factors and strengthen the integrity of the property management process. Key factors include:

- a. A need for increased awareness among employees of property policy and practices. Property is frequently purchased, shipped, relocated, disposed of or otherwise reassigned without attention to the procedure or necessary documentation required.

- b. Custodial Officers are assigned property responsibilities as collateral duties and are generally not in a position to enforce compliance.
- c. Many of the missing items are cell phones and blackberries which are frequently provided absent proper tracking protocol.
- d. Property is currently tracked by location and not by the individual. This inability to associate individual responsibility with assigned property has led to a lack of accountability for personal property.

Consistent with its previous commitment, OARM is providing the rigorous management oversight that is required to meet and avoid the current challenges. The first priority action taken was to reassign responsibility for the Personal Property program to the Deputy Division Director to ensure the necessary level of attention. Further, additional resources have been dedicated to support program operations. Third, training will be required for all employees. By taking these and other corrective actions, OARM is confident that it will continue to strengthen the necessary oversight and control of Headquarters' personal property and minimize risks associated with the program.

#### **4 – EPA Should Continue Efforts to Reconcile Intra-governmental Transactions**

##### **Recommendation**

We recommend that the Office of the Chief Financial Officer:

- 10. Continue efforts to reconcile EPA's intra-governmental transactions and make appropriate adjustments to comply with federal financial reporting requirements.

##### **Response: (Concur with recommended change to wording)**

OFS will continue to reconcile its intra-governmental activity on a quarterly basis.

Since EPA and OIG agree that the Agency is diligently working to reconcile intra-governmental transactions with our trading partners, we suggest replacing the first paragraph on pages 5 and 15 regarding “***EPA Should Continue Efforts to Reconcile Intra-governmental Transactions***” with the following text:

As of September 30, 2010, EPA reported \$378 million in unresolved differences with 48 trading partners for intra-governmental transactions. Of that amount, \$271 million was reported by Treasury to be material differences. The remaining \$107 million represents amounts reported for nonverifying agencies, accruals, timing differences, and other agencies whose differences were not reported as material. According to the *Treasury Financial Manual*, verifying agencies are those that are required to report in the Government-wide Financial Report System. These include the 24 major Chief Financial Officer (CFO) Act agencies and 11 other agencies material to the *Financial Report of the United States Government*. Any agency not required is a non-verifying agency. Treasury



policy requires verifying agencies to confirm and reconcile intra-governmental transactions with their trading partners with a goal of \$0 net differences. Based on our review of correspondence with other agencies, EPA had difficulty eliminating these differences primarily because of differing accounting treatments and accrual methodologies among federal agencies, and because of a large reporting error made by one of EPA's trading partners. EPA's inability to eliminate its intragovernmental transactions contributes to a long-standing government-wide problem that hinders the ability of the U.S. Government Accountability Office to (GAO) render an opinion on the Consolidated Financial Statements of the Federal Government.

Additional comment for page 15: suggest replacing "un-reconciled differences" with "un-eliminated differences" since EPA has reconciled and knows basis for differences.

## **5 – EPA Improperly Closed Accounts When Cancelling Treasury Symbols**

### **Recommendations**

We recommend the Chief Financial Officer:

11. Refund the cancelled funds to Treasury.

#### **Response: (Non-Concur)**

Subsequent to the issuance of the subject position paper, Office of Financial Management (OFM) found that the \$933,299 advanced funds provided to the Working Capital Fund from the Environmental Program and Management (EPM) Fund (treasury symbol 682/30108) for services were improperly reflected as drawn down of an advance in treasury symbol 683/40108. The FY 2002/2003 funds were expended before cancelled, though the incorrect fund was referenced in this transaction. Therefore, there are no funds to be returned to Treasury. While we do not concur with the recommendation as written, we do acknowledge an error affected our reporting of customer advance funds and will make the appropriate adjusting entry to 683/40108 in FY 2011. We will also review our procedures and ensure processes for reconciliations are put in place so that no future issues occur.

12. Revise its cancellation procedures for the elimination of the balances from the cancelled treasury symbols.

#### **Response: (Concur)**

OFM will evaluate its procedures and revise them as necessary to ensure timely review of the balances in canceling treasury symbols. Appropriate procedures will be implemented in FY 2011.

13. Make appropriate adjustments to properly reflect balances.

#### **Response: (Concur)**

We will conduct analysis and provide guidance to ensure that balances are properly reported. Adjustments will be made during FY 2011 based on the results of our analysis.

**Responsible Managers:**

\_\_\_\_\_  
Stefan Silzer, Acting Director, Office of Financial Manager, OCFO

Signature/Date

\_\_\_\_\_  
Raffael Stein, Director, Office of Financial Services

Signature/Date

\_\_\_\_\_  
Craig E. Hooks, Assistant Administrator, Office of Administration and Resources  
Management

Signature/Date

## Appendix III

## Distribution

Chief Financial Officer  
 Assistant Administrator for Administration and Resources Management  
 Assistant Administrator for Environmental Information and Chief Information Officer  
 General Counsel  
 Associate Administrator for Congressional and Intergovernmental Relations  
 Associate Administrator for External Affairs and Environmental Education  
 Director, Office of Policy and Resources Management, Office of Administration and  
     Resources Management  
 Director, Office of Administration, Office of Administration and Resources Management  
 Director, Office of Technology Operations and Planning, Office of Environmental Information  
 Director, Office of Budget, Office of the Chief Financial Officer  
 Acting Director, Office of Financial Management, Office of the Chief Financial Officer  
 Director, Office of Financial Services, Office of the Chief Financial Officer  
 Director, Research Triangle Park Finance Center, Office of the Chief Financial Officer  
 Director, Cincinnati Finance Center, Office of the Chief Financial Officer  
 Director, Las Vegas Finance Center, Office of the Chief Financial Officer  
 Director, Office of Planning, Analysis, and Accountability, Office of the Chief Financial Officer  
 Director, Reporting and Analysis Staff, Office of the Chief Financial Officer  
 Director, Office of Technology Solutions, Office of the Chief Financial Officer  
 Director, Financial Policy and Planning Staff, Office of the Chief Financial Officer  
 Director, Accountability and Control Staff, Office of the Chief Financial Officer  
 Director, Payroll Management and Outreach Staff, Office of the Chief Financial Officer  
 Agency Audit Followup Coordinator  
 Agency Follow-up Official  
 Audit Followup Coordinator, Office of the Administrator  
 Audit Followup Coordinator, Office of the Chief Financial Officer  
 Audit Followup Coordinator, Office of Administration and Resources Management  
 Audit Followup Coordinator, Office of Solid Waste and Emergency Response  
 Audit Followup Coordinator, Office of Environmental Information  
 Audit Followup Coordinator, Office of Grants and Debarment, Office of Administration and  
     Resources Management  
 Audit Followup Coordinator, Office of Financial Management, Office of the  
     Chief Financial Officer  
 Audit Followup Coordinator, Office of and Financial Services, Office of the  
     Chief Financial Officer



# *EPA's FY 2010 Agency Financial Report*

## **Section III Other Accompanying Information**

This document is one chapter from the *Fiscal Year 2010 Agency Financial Report*, U.S. Environmental Protection Agency (EPA-190-R-10-003), published on November 15, 2010. This document is available at: [www.epa.gov/ocfo/financialperformancereports.htm](http://www.epa.gov/ocfo/financialperformancereports.htm). Printed copies of EPA's FY 2010 *Agency Financial Report* are available from EPA's National Service Center for Environmental Publications at 1-800-490-9198 or by e-mail at [nscep@bps-lmit.com](mailto:nscep@bps-lmit.com).

## INTRODUCTION

Management challenges and integrity weaknesses represent vulnerabilities in program operations that may impair EPA's ability to achieve its mission and threaten the Agency's safeguards against fraud, waste, abuse, and mismanagement. These areas are identified through internal Agency reviews and independent reviews by EPA's external evaluators, such as the Office of Management and Budget (OMB), the Government Accountability Office (GAO), and EPA's Office of Inspector General (OIG). This section of the AFR includes two components: 1) a brief discussion of EPA's progress in addressing its FY 2010 integrity weaknesses and 2) key management challenges identified by EPA's OIG, followed by the Agency's response.

Under the Federal Managers' Financial Integrity Act (FMFIA), all federal agencies must provide reasonable assurance that policies, procedures, and guidance are adequate to support the achievement of their intended mission, goals, and objectives (See Section I, "Management Discussion and Analysis," for the Administrator's assurance statements.). Agencies also must report any material weaknesses identified through internal and/or external reviews and their strategies to remedy the problems. Material weaknesses are vulnerabilities that could significantly impair or threaten fulfillment of the Agency's programs or mission. For FY 2010, no new material weaknesses were identified by the Agency or the OIG. Additionally, the Agency removed three material weaknesses identified as part of the Agency's FY 2009 audited financial statement process. Two material weaknesses—Understated Unearned Revenue and Understated Accounts Receivable—were closed, and a third—Improvements in Billings Cost and Reconciling Unearned Revenue for Superfund State Contracts (SSC) Costs—was downgraded to a significant deficiency. The Agency continues to review the SSC process as part of its review of internal controls over financial activities to identify potential process issues and/or gaps in procedures. (See following subsection for a discussion of new, existing, and corrected weaknesses and significant deficiencies.)

The Reports Consolidation Act of 2000 requires OIG to identify, briefly assess, and report annually the most serious management and performance challenges facing the Agency. In FY 2010, OIG identified seven areas it considers to be EPA's most pressing management challenges (See page seven of this section for OIG's report to the Administrator.). EPA has made progress in addressing the issues OIG identified and will continue to work diligently in assessing and resolving vulnerabilities before they become serious management issues.

EPA's senior managers remain committed to maintaining effective and efficient internal controls to ensure that program activities are carried out in accordance with applicable laws and sound management policy. EPA leaders meet periodically to review and discuss progress the Agency's progress in addressing issues raised by OIG and other external evaluators, as well as progress in addressing current weaknesses and emerging issues. The Agency will continue to address its remaining weaknesses and report on its progress.

## **EPA'S PROGRESS IN ADDRESSING FY 2010 WEAKNESSES AND SIGNIFICANT DEFICIENCIES**

*(Prepared by EPA)*

In FY 2010, EPA continued to address its material and Agency internal control weaknesses. This section discusses the weaknesses resolved in FY 2010, as well as new weaknesses and deficiencies identified and those for which corrective actions are still underway.

### **Material Weaknesses**

#### **Understated Unearned Revenue**

During the FY 2009 financial statement audit process, OIG determined that EPA materially understated its unearned revenue. This resulted from recording expenditures of more than \$97.7 million in Superfund special accounts against the wrong fund code, which incorrectly reduced EPA's liability for advances and recognized revenue not earned. The majority of these transactions (\$93.6 million) occurred between fiscal years 2003 and 2007. EPA restated its FY 2008 financial statements to reflect the correct unearned revenue. The Agency has developed and implemented an appropriate accounting model for future transactions and prepared and entered correct transactions into Integrated Financial Management System (IFMS) to properly state the fiscal 2009 and 2008 (Restated) financial statements.

Additionally, the Agency coordinated corrective actions among its regional offices, and monitored special account fund code usage. Furthermore, regional

offices corrected open obligations to avoid creating additional negative fund code balances and made corrections at the detail site level. Correction activity for Regions 1, 2, 4, 5, 6, 9 and 10 has been completed. The support documentation for the special account negative fund code corrections resulting from the fiscal years 2008 and 2009 financial statement audits was provided to the OIG.

### **EPA's FY 2010 Weaknesses and Significant Deficiencies**

#### ***Material Weaknesses***

1. Understated Unearned Revenue\*
2. Understated Accounts Receivable\*
3. Improvements in Billing Costs and Reconciling Unearned Revenue for Superfund State Contract Costs\*

#### ***Agency Weaknesses***

1. Implementation of Data Standards\*
2. Program Evaluation
3. Permit Compliance System
4. Strengthening the Agency's Implementation of FMFIA
5. Streamlining EPA's Process for Developing Chemical Assessments Under IRIS
6. Electronic Content Management\*\*

#### ***Significant Deficiency***

1. Improvements in Billing Costs and Reconciling Unearned Revenue for Superfund State Contract Costs\*\*
2. Assess Collectibility of Federal Receivables and Record Any Needed Allowances for Doubtful Accounts\*\*
3. Improvements Needed In Controls for Headquarters Personal Property
4. Improperly Closed Accounts When Cancelling Treasury Symbols\*\*

\* All corrective actions were completed in FY 2010.

\*\* Items identified as new in FY 2010.

EPA recommends closing this material weakness based on the completion and validation of corrective actions.

### **Understated Accounts Receivable**

EPA materially understated the FY 2008 accounts receivables by not recording approximately \$151 million in receivables. EPA's Servicing Finance Office (SFO) was not aware of legal documents supporting seven receivables until the end of FY 2009. EPA's Regional Legal Enforcement Offices, Offices of Regional Counsel, and Regional Program Offices did not inform the SFO of the multi-party settlements in time to record the receivables in the Integrated Financial Management System during the proper fiscal year. EPA recorded the accounts receivable and restated its FY 2008 financial statements to reflect the correct accounts receivable balance.

To prevent future occurrences, the Agency now utilizes the Department of Justice 30-day tracking report more extensively to monitor unrecorded bankruptcy settlements. Additionally, the Agency reiterated to the Regional Bankruptcy Coordinators that any bankruptcy settlement must be sent to the SFO so that an appropriate accounts receivable is established. The Agency will continue to conduct the established reconciliation process throughout the year and look for additional methods to improve the process wherever possible.

EPA recommends closing this material weakness based on the completion and validation of corrective actions.

### **Improvement Needed in Billing Costs and Reconciling Unearned Revenue for Superfund State Contract (SSC) Costs**

During the Agency's FY 2009 financial statement audit, OIG stated that EPA did not properly review the calculations used to reconcile unearned revenue for Superfund State Contract (SSC) costs.

In FY 2010, the Agency improved accountability for the SSC contract requirements and site status information by researching transactions in older funds to determine validity, strengthening the review/verification process for reconciling Superfund site costs, and ensuring data and calculations used are consistent and properly supported. The Agency provided instructions to the regions for careful review of the "closed" sites and the steps necessary to complete the closure activity. Extra measures and verifications were taken to ensure data entered on the spreadsheets were correctly transferred into the financial system. For instance, the review of the SSC spreadsheet was added to the regional review of internal control over financial activities. This included ensuring that spreadsheets were completed for all sites, that contract values and percentages were updated, and that credits were included and that they were for the correct amounts.

As part of the quarterly SSC accrual process, OCFO will continue to send requests to the regions emphasizing the need to review all sites they have listed as 'Closed' to make sure they are taking care of all actions. This may include, but is not limited to, billing a particular state for its share of the costs, adjusting the contract values and/or percentages, and reclassifying appropriated disbursements where applicable. The Agency has included language in its quarterly call for regional input into the spreadsheets to request that the regions ensure all billings are done timely.

EPA recommends closing this as a material weakness and downgrading it to a Significant Deficiency based on progress made to date. Given the actions taken by the Agency to address this at the material weakness level, this issue is now considered to be a significant deficiency. The Agency will continue to review the SSC process as part of its review of internal control over financial activities to identify potential process issues and/or gaps in procedures, and anticipates that all remaining corrective actions will be completed in FY 2011.

## **Agency Weaknesses**

### **Implementation of Data Standards**

EPA receives most of its data (e.g., air monitoring, enforcement, etc.) from state and tribal partners electronically. To ensure a more efficient and accurate exchange of this data, EPA in collaboration with states and tribes, developed 26 different data standards, which included standard names, formats and XML tags. Examples of data standards include biological identification, contact information, monitoring location, and sample handling. The data standards address, for example, how to exchange a date (YYYY/MM/DD) or how to exchange information about a facility or chemical. In FY 2005, EPA acknowledged implementation of data standards as an Agency weakness. Since then, EPA has established a process for ensuring that each data standard adopted by the Agency is fully implemented in a cost-effective and timely manner.

The Agency has completed all corrective actions associated with this weakness and validated the effectiveness of the controls in place. Since June 2005, the Agency has produced semi-annual Data Standards Report Cards demonstrating EPA progress in implementing approved data standards. This report is available on-line within the Registry of EPA Applications, Models and Datasets (READ). To remedy the weakness, EPA has developed on-line training, which provides developers with information on how to identify applicable standards for use in systems and data products. Also, the Agency conducted training sessions on data standards implementation for developers supporting EPA program offices, and conducted formal briefings for program offices on data standards development and implementation.

EPA completed all planned conformance reviews under the FMFIA corrective action plan and continues to work with internal program offices and Exchange Network state partners to assist them in performing self-assessments. The Agency developed a Data Standards website that serves as a “one stop shop” for key information about data standards. EPA will continue to reach out and communicate with Agency system managers and developers about the importance of this activity.

EPA recommends closing this Agency weakness based on the completion and validation of corrective actions.

### **Program Evaluation**

In its September 2007 report, *Using the Program Assessment Rating Tool as a Management Control Process*, OIG identified several limitations to systematically conducting program evaluations at EPA. These include: 1) funding limitations, 2) lack of internal and external expertise, 3) the need for strategic investment in program evaluation, 4) insufficient data/performance measurement information, and 5) program evaluation partnerships with states. The Agency recommended Program Evaluation as an Agency weakness in FY 2009. The Agency continues to take steps to implement key actions in EPA's two-part program evaluation strategy and will assess progress to determine whether modifications are needed to



close this weakness in FY 2011. In FY 2010, Agency efforts focused on training, offering introductory and advanced performance management courses in logic modeling, performance measurement, and program evaluation to EPA managers and staff. This included *Environmental Results Under Grants Training* to new grants specialists and project officers; and *Program Evaluation Competition Pre-Proposals Workshops* for headquarters and regional offices. Additionally, the Agency plans to sponsor a one-and-a-half day program evaluation training workshop for staff whose proposals are selected for funding under the 2010 Program Evaluation Competition and is also funding a new course, *Using Statistical Approaches to Support Performance Measurement and Evaluation*.

In addition, the Agency continued to leverage existing Agency networks focused on measurement and evaluation (e.g., Program Evaluation Network) to discuss challenges and potential solutions to long-term measurement and data collection challenges Agency-wide. To increase program evaluation partnerships, the Agency will continue to coordinate with the Environmental Council of the States and other partners to identify additional steps to strengthen further environmental program evaluation.

### **Permit Compliance System**

In FY 1999, EPA recommended Permit Compliance System (PCS) as an Agency weakness. EPA needs to revitalize or replace PCS to provide an information system that both the states and EPA can use to ensure complete and accurate National Pollution Discharge Elimination System (NPDES) permit and discharge data.

EPA has been working closely with states and regions through numerous workgroups to develop the data requirements for the new system, design the new system, clean-up PCS data, transfer (migrate) existing PCS data to Integrated Compliance Information System (ICIS), and implement direct user and batch releases of ICIS. In FY 2010 the Agency:

- Completed data migration from PCS to ICIS and added Michigan into the ICIS-NPDES in August 2010.
- Completed Software Technical Specifications for Wave 1 of Full Batch functionality.
- Completed Software Development for Wave 1 of Full Batch functionality.
- Completed Functional and Integration testing of Wave 1 Full Batch functionality.
- Continue work with selected Wave 1 states to meet their data thresholds for data migration from Legacy PCS to ICIS-NPDES.
- Began Software Technical Specifications development for Wave 2 of Full Batch functionality (Compliance Monitoring).
- Continued work with the State/EPA Integrated Project Team (IPT) to fully develop and test the XML schemas for the Wave 1 full batch release.

The FY 2011 corrective actions are contingent on funding availability and include the following:

- Complete User Validation and Acceptance Testing for the Wave 1 full batch release.
- Implement the Wave 1 Full Batch Release of ICIS-NPDES.
- Migrate/move four additional states from PCS to ICIS-NPDES.
- Complete Software Technical Specifications for Wave 2 of Full Batch functionality.
- Complete Software Development for Wave 2 of Full Batch functionality.
- Complete Functional and Integration testing of Wave 2 Full Batch functionality.

- Work with selected Wave 2 states to meet their data thresholds for data migration from Legacy PCS to ICIS-NPDES.
- Begin Software Technical Specifications for Wave 3 of Full Batch functionality (Enforcement Actions and violation related data).

The final closure date for this Agency weakness is now projected to be the end of fourth quarter FY 2013 (PCS to be shut down in FY 2014). This completion date is based on various assumptions and estimates that extend more than several years into the future.<sup>2</sup>

### **Streamlining EPA's Process for Developing Chemical Assessments Under the Integrated Risk Information System (IRIS)**

GAO identified "Transforming EPA's Processes for Assessing and Controlling Toxic Chemicals" as a high-risk area in its January 2009 High-Risk Series. In its report, GAO states that the Agency needs to take actions to increase the transparency of the Integrated Risk Information System (IRIS) and enhance its ability under the Toxic Substances Control Act (TSCA) to obtain health and safety information from the chemical industry. GAO noted that EPA's Integrated Risk Information System (IRIS), which contains assessments of more than 500 toxic chemicals, is at a serious risk of becoming obsolete because EPA has been unable to keep its existing assessments current or to complete assessments of important chemicals of concerns. Agency senior managers recommended *Streamlining EPA's Process for Developing Chemical Assessments Under IRIS* as an Agency-level weakness during the FY 2009 end-of-year Management Integrity Meeting.

In FY 2010, EPA released five major assessments for external peer review and public comment. These assessments are being reviewed by the National Academy of Sciences (formaldehyde) or EPA's Science Advisory Board (SAB). The Agency is committed to continuing to move these assessments through the IRIS process to completion. When three major assessments (formaldehyde, trichloroethylene, and dioxin) that require a large commitment of FTE are completed, the Agency expects to be able to increase the total number of assessments it can perform.

To address the issue of assessments on the database that need to be updated, the Agency established the IRIS Update Project in 2010. This project identifies toxicity values on IRIS that are more than 10 years old and screens them for the availability of new data or new assessment methods that could change a toxicity value of a cancer descriptor. Toxicity values will be updated in batches of 8- to 12 assessments and reviewed by a Federal Standing Science Committee and a Standing External Peer Review Panel of EPA's SAB. The 2009/2010 agenda for the IRIS Update Project was announced in a Federal Register Notice on October 21, 2009 (74 FR 54040).

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<sup>2</sup> This completion date is based on various assumptions about the future; therefore, any changes to the assumptions would impact the schedule. For example, the Agency completed an Alternative Analysis for ICIS on September 30, 2008. The current FY 2013 completion date assumes no changes to the currently planned technical approach and also assumes FY 2008, FY 2009, and FY 2010 extramural funding for ICIS at the President's budget amount of \$6.7 million. For FY 2011 and beyond, we assumed that annual funding will rise to \$ 7.5 million. (If OECA assumes the President's budget level of \$6.7 continues in FY 2011 and beyond, the schedule would likely move five or more quarters into the future, with a shut-down date for PCS delayed until FY 2015). Further, as with any project, extended timelines for completion add risk to the project, and predictions about when the project will be completed become more speculative.

In FY 2010, to ensure that the IRIS program is focusing on the greatest needs, Agency expanded the role of EPA program and regional offices in nominating and prioritizing chemicals for IRIS assessment. The Agency has met internally with program and regional offices to better understand their assessment needs and to get input on their priorities for the current IRIS agenda. The priorities are being used to allocate resources among the assessments and determine which ones will be done first.

Also, EPA is working with the California Environmental Protection Agency's (CalEPA) Office of Environmental Health Hazard Assessment and the Agency for Toxic Substances and Disease Registry under separate Memoranda of Understanding. These efforts to pool resources and share information will eventually increase the IRIS program's efficiency and output of assessments.

In an effort to qualitatively advance the state of the science and increase our ability to more efficiently and rapidly conduct assessments, the Agency began a pilot project in FY 2010 on advancing the next generation (NexGen) of risk assessment that will explore the feasibility of using advances in molecular systems biology for developing health assessments. It is anticipated that this pilot project will help pave the way for using high throughput data to develop rapid health assessments. This is a collaborative effort with the National Institute of Environmental Health Sciences, the National Human Genome Research Institute and CalEPA.

### **Strengthening the Agency's Implementation of FMFIA**

OIG identified "*Reporting on Compliance with FMFIA*" as a potential Agency weakness, noting that the Agency's management integrity guidance for FY 2008 and 2009 did not require reporting on compliance with all five of the GAO's Standards for Internal Control in the Federal Government, as referenced in OMB Circular A-123. OIG recommended that EPA enhance its FMFIA guidance to address all five standards more explicitly and that the Administrator communicate to senior managers the significance of the FMFIA certifications and compliance with the GAO standards. In addition, OIG recommended that the Agency develop tiered training on FMFIA implementation for managers and staff.

The Agency recommended *Strengthening the Agency's Implementation of FMFIA* as an Agency weakness in FY 2009 and is taking steps to strengthen EPA's FMFIA process and to address OIG concerns.

- In FY 2010, OCFO completed Management Integrity Program Compliance Reviews in the Offices of Water and Solid Waste, and in Regions 2, 4, 9, and 10 and used the findings to inform Management Integrity Guidance for the Agency. OCFO will continue to conduct Program Compliance Reviews in program and regional offices on a rotating annual basis to assess the Agency's FMFIA implementation and determine the need for guidance, training, and other tools and assistance.
- OCFO developed a three-tier strategy for Agency-wide training for senior managers, Management Integrity Advisors (MIAs), and Agency staff and has begun beta testing the module for the MIAs. All three on-line training modules will be available in FY 2011.
- The Administrator issued a kick-off memo to senior managers announcing the FY 2010 FMFIA process, clarifying expectations for senior leadership, and emphasizing the importance of maintaining internal controls over programmatic operations and financial activities.

- OCFO issued technical guidance to help Assistant Administrators and Regional Administrators establish a solid foundation for reviewing internal controls over program operations, conducting internal control reviews over financial activities, and preparing their statements of assurance on the adequacy of internal controls. The guidance included a template for developing Program Review Strategies which requires reporting on all five GAO standards.
- OCFO will continue to analyze regional and program offices' FY 2010 and FY 2011 annual assurance letters to ensure that assurance statements are adequately supported and documented and to identify best practices. In addition, the Agency will use reviews conducted by OIG and other oversight agencies to determine the effectiveness of corrective actions.

### **Electronic Content Management**

In today's world of electronic records, mail, and documents, the traditional paper-based management strategies fall short of retrieval and access needs. Agency inconsistencies in how electronic content is stored, maintained, and accessed (or not) have begun to impact critical processes related to electronic records management. In addition, slow transition from paper-based records management to electronic records management is increasing costs and reducing Agency efficiency. Electronic content management comprises the strategies to receive or create, preserve, maintain, discover, and retrieve and access structured data (e.g., air monitoring data stored in a database, rulemaking documents and files organized in an application) and unstructured data (e.g., email messages, loose documents and files on a desktop or shared drives) and has a multitude of drivers (e.g., Federal Records Act; electronic retrieval such as eDiscovery; Freedom of Information Act; and Agency business operations such as, permitting, enforcement, research, remediation, and rulemaking). While the scope electronic content management is quite broad, the Agency faces challenges that result from shortcomings pertaining to electronic retrieval, electronic records management, and email retention.

EPA recommends Electronic Content Management as an Agency weakness and proposes an enterprise-level approach to resolve the shortcomings posed by electronic retrieval, electronic records management, and email retention. The Agency is developing a corrective action strategy that will outline the major milestones and completion dates to correct this weakness.

### **Significant Deficiency**

#### **Improvement Needed in Billing Costs and Reconciling Unearned Revenue for Superfund State Contract (SSC) Costs**

During the Agency's FY 2009 financial statement audit, OIG stated that EPA did not properly review the calculations used to reconcile unearned revenue for Superfund State Contract (SSC) costs.

EPA recommends this issue as a Significant Deficiency, based on progress made to remedy this as a material weakness (see discussion under Material Weaknesses for details on actions taken by the Agency). The Agency anticipates that all remaining corrective actions will be completed in FY 2011.

### **Assess Collectibility of Federal Receivables and Record Any Needed Allowances for Doubtful Accounts**

During the FY 2010 Financial Statement Audit, OIG stated that the Agency should assess federal receivables collectability and record any needed allowances for doubtful accounts. The Agency anticipates completing corrective actions related to this significant deficiency in FY 2011.

### **Improvements Needed In Controls for Headquarters Personal Property**

During the FY 2010 Financial Statement Audit, OIG identified improvements needed in the controls for Headquarters personal property. The Agency anticipates completing corrective actions related to this significant deficiency in FY 2011.

### **Improperly Closed Accounts When Cancelling Treasury Symbols**

During the FY 2010 Financial Statement Audit, OIG identified improper procedures used when canceling treasury symbols. The Agency anticipates completing corrective actions related to this significant deficiency in FY 2011.

### **Summary of Financial Statement Audit**

Audit Opinion	Audit Opinion: Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Understated Unearned Revenue	1	0	1	0	0
Understated Accounts Receivable	1	0	1	0	0
Billing Costs and Reconciling Unearned Revenue for SSC Costs	1	0	1	0	0
Total Material Weaknesses	3	0	3	0	0

## Summary of Management Assurance

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2) (A-123 Appendix A)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Understated Unearned Revenue	1	0	1	0	0	0
Understated Accounts Receivable	1	0	1	0	0	0
Billing Costs and Reconciling Unearned Revenue for SSC Costs	1	0	1	0	0	0
<i>Total Material Weaknesses</i>	3	0	3	0	0	0

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
<i>Total Material Weaknesses</i>	0	0	0	0	0	0

Conformance With Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems Conform to Financial Management System Requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Non-Conformances</i>	0	0	0	0	0	0

Compliance With FFMIA		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirement	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

NOTE: See "EPA Holds Itself Accountable " in Section I of this report for additional information on FMFIA 2, FMFIA 4, and FFMIA presented in the summary graphs above."

## FY 2010 KEY MANAGEMENT CHALLENGES IDENTIFIED BY THE OFFICE OF INSPECTOR GENERAL

EPA's Top Major Management Challenges Reported by the Office of Inspector General	FY 2008	FY 2009	FY 2010	Link to EPA Strategic Goal
<b>The Need for a National Environmental Policy:</b> Environmental quality depends on policies related to farming, energy, water, transportation, and federal land management. A national environmental policy would help EPA and other federal agencies go beyond existing, fragmented coordination efforts to set national environmental goals and regulatory standards, particularly for problems that cross state or national borders or pose risks to future generations.			•	Cross-Goal
<b>Water and Wastewater Infrastructure:</b> Many drinking water and wastewater systems across the country are unable to maintain compliance with federal water standards due to needed repairs and new constructions. Over the next 20 years, EPA estimates that approximately \$1 trillion will be needed to pay for water and wastewater infrastructure. EPA needs to lead in developing a coherent federal strategy with states and local governments to assess and organize resources to meet water and wastewater infrastructure needs.	•	•	•	Goal 2
<b>Oversight of Delegations to States:</b> Differences between state and federal policies, interpretations, and priorities make effective oversight a challenge. EPA needs to more consistently and effectively oversee its delegation of programs to the states assuring that delegated programs are achieving their intended goals.		•	•	Cross-Goal
<b>Safe Reuse of Contaminated Sites:</b> The common practice of not removing all sources of contamination from hazardous sites is inhibited by a regulatory structure that places key responsibilities for monitoring and enforcing the long-term safety of contaminated sites on non-EPA parties that may lack necessary resources, information, and skill; changes in site risks as conditions change over time; and existing weaknesses in EPA's oversight of the long-term safety of sites as well as funding deficiencies.		•	•	Goal 3
<b>Limited Capability to Respond to Cyber Security Attacks:</b> EPA is highly vulnerable to existing external network threats, despite reports from security experts that Advanced Persistent Threats (APTs), designed to steal or modify information without detection are becoming more prevalent throughout the government. Currently, EPA has reported that more than 5,000 servers and user workstations may have been compromised from recent cyber security attacks along with national security and confidential business and personal data. (Previous years reported under Homeland Security)			•	Cross Goal
<b>Reducing Domestic Greenhouse Gas (GHG):</b> In response to a Supreme Court ruling in April 2007, EPA issued an Endangerment Finding that current and projected atmospheric concentrations of six GHGs threaten the public health and welfare of current and future generations. However, EPA must take significant action to address the adverse impacts of these air pollutants.			•	Goal 1
<b>EPA's Framework for Assessing and Managing Chemical Risks:</b> EPA's effectiveness in assessing and managing chemical risks is limited by its authority to regulate chemicals under the TSCA. Chemicals manufactured before 1976 were not required to develop and produce data on toxicity and exposure, which are needed to properly and fully assess potential risks.			•	Goal 4 Goal 5



**UNITED STATES ENVIRONMENTAL PROTECTION AGENCY**  
WASHINGTON, D.C. 20460

OFFICE OF  
INSPECTOR GENERAL

May 11, 2010

**MEMORANDUM**

**SUBJECT:** EPA's Fiscal Year 2010 Management Challenges

**TO:** Lisa P. Jackson  
Administrator

We are pleased to provide you with a list of areas the Office of Inspector General considers to be key management challenges confronting the U.S. Environmental Protection Agency (EPA). We developed a definition for management challenges to clarify and distinguish them from internal control weaknesses. Weaknesses are deficiencies in internal control activities designed to address and meet internal control standards. In contrast, we define management challenges as a lack of capability derived from internal, self-imposed constraints or, more likely, externally imposed constraints that prevent an organization from reacting effectively to a changing environment. For example, lack of controls over approval of bankcard purchases would be considered a control weakness because it can be corrected internally by adding the necessary controls. Conversely, the Agency's ability to address an issue such as funding shortfalls for water infrastructure repairs would constitute a management challenge, as EPA does not have the ability to solve these challenges without outside assistance, such as from Congress and States.

We identified the management challenges listed below using past audit, evaluation, or investigative work along with additional analysis of Agency operations. Other challenges may exist in areas that we have not yet reviewed. Detailed summaries of the challenges are provided in the Attachment.



<b>Management Challenges</b>	<b>Page</b>
<b>The Need for a National Environmental Policy</b>	<b>1</b>
<b>Water and Wastewater Infrastructure</b>	<b>3</b>
<b>Oversight of Delegations to States</b>	<b>5</b>
<b>Safe Reuse of Contaminated Sites</b>	<b>7</b>
<b>Limited Capability to Respond to Cyber Security Attacks <i>(new)</i></b>	<b>11</b>
<b>Reducing Domestic Greenhouse Gas Emissions <i>(new)</i></b>	<b>14</b>
<b>EPA's Framework for Assessing and Managing Chemical Risks <i>(new)</i></b>	<b>18</b>

This year, we deleted three challenges primarily due to EPA's actions to address our prior concerns: (1) Management of Stimulus Funds, (2) Meeting Homeland Security Requirements, and (3) Voluntary Programs. We also deleted EPA's Organization and Infrastructure as a challenge because we believe that remaining actions that need to be taken are within EPA's control. The Need for a National Environmental Policy incorporates and replaces the prior Threat and Risk Assessment challenge, and Oversight of Delegations to States includes prior Performance Measurement information.

We welcome the opportunity to discuss our list of challenges and any comments you might have.



Bill A. Roderick  
Acting Inspector General

Attachment

## The Need for a National Environmental Policy

Congress passed the National Environmental Policy Act and created the U.S. Environmental Protection Agency (EPA) in 1970 to carry out national policy. Before EPA's creation, more than a dozen federal agencies had environmental responsibilities, and there was no organized, concerted focus to address pollution and degradation of the environment caused by prior years of neglect. Creating EPA served as the first step to address national environmental policy by consolidating separate federal efforts. A 2002 National Academy of Public Administration (NAPA) case study noted that establishing EPA proved difficult because its Administrator had no clear authority or 'organic' act<sup>3</sup> with which to integrate various statutorily separate programs. An earlier NAPA report noted that EPA has suffered since its inception from its structure and conflicting goals<sup>4</sup> – challenges that remain as EPA nears its 40th anniversary.

Environmental law scholars have noted that rigid environmental laws do not allow EPA to confront emerging, cross-media, and cross-boundary challenges. In 1997, the National Research Council (NRC) recognized that problems such as global climate change, stratospheric ozone depletion, the loss of biological diversity, long-range transport of pollutants in air or water, global pressures on ocean resources, and regional water scarcity are broader, more complex environmental problems than those that received major attention several decades ago, and require more concerted, coordinated efforts.<sup>5</sup> The current fragmented approach to these problems stems from environmental laws that often focus on a single media or threat, and EPA's goals and program offices that implement separate legislative mandates. Additionally, EPA lacks complete authority or control over many activities that impact the condition of our nation's environment, such as land use and transportation planning. Environmental quality depends on policies related to farming, energy, water, transportation, and federal land management, but neither Congress nor the Executive Branch is fully engaged in harmonizing these issues. A national policy would help EPA and other federal agencies go beyond existing, fragmented coordination efforts.

Testimony in 1995 by the Comptroller General of the United States before the Senate Committee on Government Affairs relates to EPA's current predicament: "[T]he lack of an integrated approach to government leads to redundancy and waste. [G]overnment can make huge efforts to provide services to the public, yet still fall far short of its intentions because of faulty coordination of its efforts within and across agency lines." As a result, observations from a 1996 NRC report still resonate today: "Although substantial progress has been made in improving environmental quality, the country still lacks a unified national strategy."<sup>6</sup> The Environmental Law Institute further noted, "Interagency coordination concerning the environment is uneven at best."<sup>7</sup>

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<sup>3</sup> Ink, Dwight, NAPA, *Ash Council Case Study: 1969-1970*, Historical Documents on Management Reform Maintained by the Executive Organization and Management Panel, March 12, 2002.

<sup>4</sup> NAPA, *Resolving the Paradox of Environmental Protection: An Agenda for Congress, EPA & the States*, September 1997.

<sup>5</sup> NRC, Committee on Research Opportunities and Priorities for EPA, *Building a Foundation for Sound Environmental Decisions*, 1997.

<sup>6</sup> NRC, Policy Division, *Linking Science and Technology to Society's Environmental Goals*, 1996.

<sup>7</sup> Environmental Law Reporter News & Analysis, Special Issue: Agenda for a Sustainable America, National Governance: Still Stumbling Toward Sustainability, 39 Env'tl. L. Rep. News & Analysis 10321 (April 2009).

The structure created by the National Environmental Policy Act 40 years ago has not resulted in a comprehensive approach to environmental protection. EPA's main effort to identify and address national goals was its *Proposed Environmental Goals for America with Milestones for 2005* (1995). The NRC said this effort did not prioritize individual goals or acknowledge trade-offs between desired outcomes and/or goal choices. Officials within EPA said the 1995 report was a creative effort that lacked follow-through. In the 2008 *Report on the Environment*, EPA provided data on cross-program issues in the form of indicators that assessed the status and trends of environmental conditions at the time. However, this report did not integrate cross-agency strategies to address national environmental goals. EPA's 2006-2011 Strategic Plan identifies 25 federal agencies that contribute to EPA's goals. While goal-specific chapters describe cross-media and interagency activities, the Strategic Plan does not integrate these efforts or describe national goals that go beyond EPA's current mission and goal structure. The Plan also notes that delegated State programs conduct much of the day-to-day work involved in many air and water programs. However, our evaluations have shown that EPA's oversight of State programs requires improvement. Thus, though EPA has undertaken worthwhile efforts in the past, the Agency has not developed a comprehensive environmental protection plan that includes the efforts of all stakeholders.

Other federal agencies and countries have taken steps to integrate efforts across all levels of government. For example, after the terrorist attacks on September 11, 2001, the White House and Congress created the U.S. Department of Homeland Security to organize activities spread across more than 40 federal agencies.<sup>8</sup> The comprehensive *National Strategy for Homeland Security* seeks to develop a complementary system connecting all levels of government without duplicating effort. In 2007, Congress passed legislation mandating a Quadrennial Homeland Security Review of the Strategy beginning in FY 2009.<sup>9</sup> This review provides an enterprise-wide focus on responsibilities across government supporting "a national strategy, not a federal strategy" to "guide, organize, and unify our Nation's homeland security efforts." Australia and Japan have successfully taken a national policy approach to environmental protection and conservation legislation and activities.<sup>10</sup> Both countries have recognized the value of establishing national environmental goals and setting national policy.

Developing and implementing a national policy poses a number of challenges. However, environmental protection – like homeland security – is a public good and as such requires a nationally coordinated approach toward policy. EPA must have the force of national environmental goals to set regulatory standards, particularly for problems that cross State or national borders or pose risks to future generations. Congress should provide EPA, States, and the other 25 federal agencies that share a responsibility for environmental protection the means to identify and manage environmental problems of national significance. EPA should work with Congress and the Administration to examine ways to leverage resources expended on various, insular environmental protection efforts. The Administration should propose to Congress that it create expert panels to consider formulating a national environmental policy and subsequent quadrennial review. Congress could also consider integrating or passing legislation that may be

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<sup>8</sup> U.S. Department of Homeland Security, History Office, *Brief Documentary History of the Department of Homeland Security: 2001-2008*, 2008.

<sup>9</sup> "The Implementing Recommendations of the 9/11 Commission Act of 2007," which passed into law on August 3, 2007, requires that every 4 years, beginning in FY 2009, the Secretary of Homeland Security conduct a Quadrennial Homeland Security Review of the United States. The Secretary planned to provide conclusions of the first review to Congress in a final report by December 31, 2009, but issued the report in February 2010.

<sup>10</sup> Australia enacted its primary environmental legislation – the Environment Protection and Biodiversity Conservation Act 1999 – in July 2000. In 1993, Japan established a "Basic Environmental Law" to chart the direction of the nation's environmental policies.

recommended by these panels to harmonize various efforts and, where appropriate, maintain existing requirements in environmental statutes. Through these efforts, EPA and its partners could move away from isolated, media- and interest-specific initiatives toward a more cohesive, unified, and future-thinking approach to environmental protection. While EPA has much to celebrate heading into its 40th anniversary, by its 50th the Agency should have taken the critical – albeit challenging – steps necessary to integrate efforts through its role as the Nation’s environmental leader.

## **Water and Wastewater Infrastructure**

The water and wastewater infrastructure gap remains a major challenge for 2010. Drinking water and wastewater treatment systems are reaching the end of their life cycles, and huge capital investments are needed to replace, repair, and construct facilities so that municipalities can meet existing and emerging federal human health and environmental standards.

Approximately 160,000 public drinking water systems provide the Nation with drinking water, while 16,000 sewage treatment plants treat and dispose of wastewater.<sup>11</sup> Under the Clean Water Act (CWA) and Safe Drinking Water Act (SDWA), water and wastewater facilities are responsible for ensuring that water leaving their facilities meets federal standards. EPA is responsible for administering these laws, enforcing violations of the standards, and assisting facilities to meet their treatment requirements.

*Aging Infrastructure.* Much of the drinking water and wastewater infrastructure in the United States was built over 40 years ago.<sup>12</sup> Some of the Nation’s water infrastructure systems have components over 100 years old. The American Society of Civil Engineers recently assigned an overall “D” grade in its Report Card for America’s Infrastructure and “D-” to drinking water and wastewater.<sup>13</sup> Replacing aging systems is necessary to maintain our Nation’s waters and public health, but it will be costly. EPA has struggled to update these systems over the years because neither the Agency nor municipalities have sufficient modernization and replacement funds.

*Meeting Existing Standards.* Meeting existing standards requires regular investment for treatment plants and distribution systems. Water and wastewater facilities already make considerable capital expenditures; local governments spend more on water infrastructure than on anything else except education.<sup>14</sup> However, many drinking water and wastewater systems are failing to keep up with repairs and new construction required to maintain compliance with federal standards. According to EPA, each year there are approximately 240,000 water main breaks and 75,000 sewer overflows, resulting in public health threats.<sup>15</sup>

*Meeting Additional Standards.* New and more stringent standards compel systems to make even more extensive capital improvements. For example, many wastewater treatment plants are beginning to install costly nutrient removal technologies. Drinking water facilities will also

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<sup>11</sup> U.S. EPA Website, “Safe Drinking Water Act – Basic Information”; U.S. Department of Energy, Energy Efficiency and Renewable Energy, Federal Energy Management Program, “Biomass and Alternative Methane Fuels Fact Sheet,” July 2004.

<sup>12</sup> U.S. EPA Website, “Sustainable Infrastructure for Water & Wastewater.”

<sup>13</sup> American Society of Civil Engineers, *2009 Report Card for America’s Infrastructure* – full report.

<sup>14</sup> U.S. Conference of Mayors, Mayors Water Council, *Who Pays for the Water Pipes, Pumps, and Treatment Works? Local Government Expenditures on Sewer and Water – 1991 to 2005*.

<sup>15</sup> U.S. EPA, Office of Research and Development, National Risk Management Research Laboratory, Aging Water Infrastructure Research Program, *Addressing the Challenge through Innovation*, EPA/600/F-07/015, September 2007.

need to meet new standards. Between January 2006 and December 2007, EPA issued three new rules<sup>16</sup> and made substantial revisions to the existing Lead and Copper Rule.

*Paying for Upgrades and Maintenance.* Funding is the biggest issue facing public water agencies, said Ken Kirk, executive director of the National Association of Clean Water Agencies (NACWA). As an example of the magnitude of costs, a single city, the District of Columbia, estimated it will need to spend \$3.6 billion to meet some CWA requirements.<sup>17</sup> In a recent white paper, NACWA said the federal contribution to the nation's overall water and wastewater investment has dropped from about 78 percent in the 1970s to 3 percent today. EPA and the U.S. Government Accountability Office (GAO) have cited an estimated \$300-\$500 billion funding gap for wastewater treatment and water infrastructure over the next 20 years.<sup>18</sup> The gap represents infrastructure failures, like water main breaks and sewer overflows that could increase public health, environmental, and economic risks.

The Federal Government does not have a national approach to bridging the water and wastewater infrastructure gap. EPA's Clean Water and Drinking Water State Revolving Funds received a total of about \$1.4 billion in federal capitalization grants in FY 2009.<sup>19</sup> Congress added \$6 billion to these funds in the American Recovery and Reinvestment Act of 2009 (ARRA). The U.S. Department of Housing and Urban Development and the U.S. Department of Agriculture also provided grant and loan assistance for water and wastewater infrastructure of about \$2 billion in FY 2006<sup>20</sup> and received funding through the ARRA. However, these programs are small in relation to the gap and are not part of a comprehensive investment strategy to address water infrastructure needs; they reflect each agency's mission and congressional direction. On February 24, 2010, the Senate passed a bill allocating an additional \$1 billion for Safe Drinking Water Capitalization grants, provided the projects are under contract within 8 months and under construction within 12 months.<sup>21</sup> The bill also provides the U.S. Army Corps of Engineers an additional \$30 million for water infrastructure construction.<sup>22</sup>

*EPA's Role.* While EPA is responsible for administering the CWA and SDWA, it does not have resources or authority to address the funding gap. However, EPA should take the lead in organizing a coherent federal strategy within the limits of its statutory authorities and responsibilities.

On January 12, 2010, Administrator Jackson defined seven key themes to focus the work of the Agency. One theme, "Protecting America's Waters," noted that "Recovery Act funding will expand construction of water infrastructure, and we will work with states to develop and launch

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<sup>16</sup> U.S. EPA, Final Ground Water Rule (November 2006), Long Term 2 Enhanced Surface Water Treatment Rule (January 2006), and the Stage 2 Disinfection Byproducts Rule (January 2006).

<sup>17</sup> NACWA, PowerPoint presentation on CSOs, 2007.

<sup>18</sup> *Daily Environment Report*, "Stormwater, Nutrients, Wetlands Jurisdiction Seen as Leading Clean Water Issues for 2010," January 20, 2010.

<sup>19</sup> U.S. EPA, *Drinking Water State Revolving Fund Allotments*; U.S. EPA, *Clean Water SRF Federal Capitalization Grants by Federal Fiscal Year of Award by State*.

<sup>20</sup> U.S. Department of Agriculture, Rural Development, Water and Environmental Programs, *Annual Activity Report – FY 2006*, page 6.

<sup>21</sup> See HR 2847, Commerce, Justice, Science, and Related Agencies Appropriations Act, 2010, House Amendment to Senate Amendment, page 13.

<sup>22</sup> See HR 2847, Commerce, Justice, Science, and Related Agencies Appropriations Act, 2010, House Amendment to Senate Amendment, page 3.

an Urban Waters initiative.”<sup>23</sup> Despite this key theme, the Office of Enforcement and Compliance Assurance did not list infrastructure as a priority for its 2011-2013 activities.<sup>24</sup>

In its role administering the CWA and the SDWA, EPA should ensure there is a comprehensive federal understanding of the risks to public health, the environment, and the economy if this critical resource gap remains unresolved. A comprehensive approach to bridging the water and wastewater infrastructure gap would systematically assess the investment requirements, alert the public and Congress of unfunded liabilities and risks, and work with States and local governments to organize resources to meet needs.

### **Oversight of Delegations to States**

EPA’s oversight of State programs requires improvement. GAO and our office have reported that EPA has made some progress in this area; however, there are a number of factors and practices that reduce the effectiveness of Agency oversight. Key among these are limitations in the availability, quality, and robustness of program implementation and effectiveness data, and limited Agency resources to independently obtain such data. Differences between State and federal policies, interpretations, and priorities make effective oversight a challenge.

EPA’s mission is to protect human health and the environment. To accomplish its mission, EPA develops regulations and establishes programs that implement environmental laws. These programs may be delegated to State, local, and tribal agencies that request to take primacy of the program. Delegation, however, does not abrogate EPA of its statutory and trust responsibilities for protecting human health and the environment. EPA performs oversight of State, local, and tribal programs to provide reasonable assurance that delegated programs are achieving their goals. In addition to regulatory programs, EPA sponsors voluntary partnerships and programs with more than 10,000 industries, businesses, nonprofit organizations, and State and local governments on more than 40 pollution prevention programs and energy conservation efforts. Dealing with partners requires different types of management approaches and controls as compared with dealing with parties that require oversight. EPA does not have the resources to effectively administer all of its responsibilities directly. EPA relies heavily on local, State, and tribal agencies for compliance and enforcement and to obtain performance data. In its *FY 2007 Performance and Accountability Report*, EPA states it delegated the responsibility for issuing permits and for monitoring and enforcing compliance to the States and tribes.

A critical management challenge for EPA is oversight of its delegations to States. Federal environmental statutes grant EPA a significant role in implementing the intent of the law, and also authorize a substantial role for States. Federal intent is to give all citizens an equal level of environmental protection. However, quality data are often lacking to ensure that the intent of the law is met. For example, EPA lacks the data necessary to assess the benefits of its air toxics standards, such as data on decreased incidence of cancer. Data on the program’s effectiveness, such as changes in emissions, concentrations of air toxics in the (ambient) outdoor air, and data on compliance with air toxics standards are limited and inconclusive. In addition, federal requirements establish consistency for businesses and within industries

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<sup>23</sup> U.S. EPA Memorandum, “Our Top Priorities,” issued by Administrator Lisa Jackson to all EPA employees, January 12, 2010.

<sup>24</sup> U.S. EPA Website, Office of Enforcement and Compliance Assurance, *National Enforcement Initiatives for Fiscal Years 2011-2013*.

nationwide. States' discretion adds flexibility to address specific circumstances and local issues. Joint implementation and enforcement leads to special challenges in interpretations, strategies, and priorities.

EPA has begun to improve its oversight by implementing the State Review Framework. The Framework is intended to be a consistent approach for overseeing programs and identifying weaknesses and areas for improvement. However, EPA has not yet implemented it in a consistent manner. GAO reported that while EPA has made substantial progress in improving priority setting and enforcement planning with States, EPA's oversight needed further enhancement. For example, State Revolving Fund reviews show that EPA has limited ability to determine whether States are performing appropriate enforcement in a timely manner, and whether penalties are applied to environmental violators in a fair and consistent manner within and among States. In response to these findings, EPA has initiated a Clean Water Act Enforcement Action Plan, which among other things is aimed at strengthening Agency oversight of State water quality compliance and enforcement.

We have continued our work on this topic. In studies we have published this past year, we found that EPA does not exercise its authority to oversee programs when necessary. *EPA Oversight and Policy for High Priority Violations of Clean Air Act Need Improvement* noted that Headquarters did not oversee regional and State high-priority violator (HPV) performance, and regions did not oversee State HPV performance. If HPVs are not addressed in a timely manner, continued emissions from facilities may result in significant environmental and public health impacts, undermining deterrence efforts and creating unfair economic benefits.

*EPA Needs to Accelerate Adoption of Numeric Nutrient Water Quality Standards* noted that EPA has not held States accountable to committed milestones, and States have not been motivated to create nutrient water quality standards because implementation is costly and often unpopular with constituencies. We recommended that EPA use its CWA authority to promulgate water quality standards for States as needed.

An ongoing review of issues related to this management challenge focuses on agreements between EPA and States that operate National Pollution Discharge Elimination System programs. EPA expressed concern that, if inadequate, these documents could limit EPA's authority to take enforcement actions when needed. We are assessing this question and the adequacy of these documents to establish national baselines for State program characteristics, monitoring, inspections, and enforcement. We will follow this review with projects that bear on other aspects of how EPA manages its relations with its State and tribal partners.

In summary, while EPA is renewing its attention on the oversight of programs delegated to States, much remains to be done because the issues are complex and changeable. Effective oversight of delegations to States is a continuous management challenge that requires an agile organization, accurate data, and consistent interpretations of policy. To provide effective oversight, the Agency must address limitations in the availability, quality, and robustness of program implementation and data.

### **Safe Reuse of Contaminated Sites**

In the last decade, EPA has placed increasing emphasis on the reuse of contaminated or once-contaminated properties. Today, EPA has a performance measure to define a population of

contaminated sites that are “ready for reuse.”<sup>25</sup> The Agency has identified thousands of contaminated sites that it encourages developers and “anyone interested” to use for building renewable energy facilities (e.g., wind, solar, biomass facilities).<sup>26</sup> EPA has successfully turned some actual or perceived problem sites into properties that reinvigorated communities and created jobs.<sup>27</sup> Contaminated properties have become viable again as retail stores, public recreation areas, housing complexes, sports stadiums, and commercial office space.

EPA’s goal to recycle and reuse contaminated property can produce measured economic benefits, provide environmental benefits that result from preserving undeveloped lands, and improve quality of life for communities. While these goals are notable and may have added significance in difficult economic times, EPA’s duty is to ensure that contaminated sites are safe for humans and the environment. EPA faces significant and increasing challenges in this area due to (1) the common practice of not removing all sources of contamination from hazardous sites; (2) a regulatory structure that places key responsibilities for monitoring and enforcing the long-term safety of contaminated sites on non-EPA parties that may lack necessary resources, information, and skill; (3) changes in site risks as site conditions change over time; and (4) weaknesses in EPA’s oversight of the long-term safety of sites.

Many contaminated sites, such as Superfund sites, must be monitored in the long term (i.e., 30 years or more) because known contamination is often not removed or remediated and controls that prevent prohibited activities at sites must be maintained and enforced. New controls or monitoring may be required if previously undetected or new contaminants emerge,<sup>28</sup> which can happen directly as a result of a change in the site brought about by reuse. The lack of effective long-term monitoring and enforcement of reuse controls at contaminated sites can pose significant risks to human health and the environment. The New York Department of Environmental Conservation released a report in March 2009 listing hundreds of “old” Superfund, Brownfields, and other clean-up cases that were reopened to investigate potential new threats from vapor intrusion.<sup>29</sup> Improvements in analytic techniques and knowledge gained from site investigations has led to increased awareness of soil vapor as a medium of concern and of the potential for human exposure from the soil vapor intrusion pathway.<sup>30</sup> However, EPA has yet to finalize Agency guidance on assessing or addressing the potential risks from vapor intrusion and does not estimate it will do so until 2012.<sup>31</sup>

EPA has acknowledged challenges to ensuring the long-term safety of contaminated sites.<sup>32</sup> In 2005, the Agency released a report that examined a range of long-term stewardship issues<sup>33</sup>

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<sup>25</sup> U.S. EPA, *Guidance for Documenting and Reporting the Superfund Sitewide Ready-for-Reuse Performance Measure, Attachment A*, OSWER 9365.0–36.

<sup>26</sup> U.S. EPA Website, “RE-Powering America’s Land: Renewable Energy on Contaminated Land and Mining Sites.”

<sup>27</sup> U.S. EPA Website, “Superfund Redevelopment.”

<sup>28</sup> U.S. EPA, *Brownfields Technology Primer: Vapor Intrusion Considerations for Redevelopment*, EPA 542-R-08-001, March 2008.

<sup>29</sup> New York State Department of Environmental Conservation, *Status of Vapor Intrusion Evaluations at Legacy Sites*, February 11, 2009; New York State Department of Environmental Conservation, *Strategy for Evaluating Soil Vapor Intrusion at Remedial Sites in New York*, DER-13, October 18, 2006.

<sup>30</sup> New York State Department of Environmental Conservation, *Strategy For Evaluating Soil Vapor Intrusion at Remedial Sites in New York*, DER-13, October 18, 2006.

<sup>31</sup> EPA-OIG, *Lack of Final Guidance on Vapor Intrusion Impedes Efforts to Address Indoor Air Risks*, Report No. 10-P-0042, December 14, 2009.

<sup>32</sup> U.S. EPA, *Long-Term Stewardship: Ensuring Environmental Site Cleanups Remain Protective Over Time: Challenges and Opportunities Facing EPA’s Cleanup Programs*, EPA 500-R-05-001, September 2005.



and challenges it faced, as well as the role of non-EPA parties (i.e., States, tribes, and other federal agencies) in ensuring long-term safety of contaminated sites. The Agency identified five categories of challenges: (1) understanding roles and responsibilities; (2) implementing and enforcing institutional controls;<sup>34</sup> (3) implementing, enforcing, and monitoring engineering controls;<sup>35</sup> (4) estimating long-term stewardship costs and obtaining funding and resources; and (5) managing and communicating information to prevent breaches of controls and ensuring consistent information in databases. The report made a number of recommendations that generally rely on partnerships and relationships to share, communicate, and exchange necessary information on roles, responsibilities, and costs associated with long-term stewardship responsibilities. The report encouraged non-EPA parties to adhere to legal provisions for implementing institutional controls, where applicable (e.g., Uniform Environmental Covenants Act<sup>36</sup>). In response to reported GAO concerns in this area, EPA has also taken some steps to better manage the implementation of institutional controls at Superfund sites.<sup>37</sup> However, many sites remain for which the implementation status of institutional controls is not available.<sup>38</sup>

Our work has identified a number of additional challenges that EPA faces in ensuring effective long-term monitoring or stewardship of contaminated sites. We found that some States were not financially prepared to take over their long-term monitoring and maintenance responsibilities for Superfund sites.<sup>39</sup> Recent news from Michigan's Department of Environmental Quality shows that the Department believes that it will run out of money for its hazardous waste clean-up program by the end of 2010.<sup>40</sup> We have reported on State failures to enforce clean-up agreements,<sup>41</sup> EPA's failure to follow Superfund site deletion guidance<sup>42</sup> and five-year review procedures,<sup>43</sup> and EPA's lack of systems to determine whether a site clean-up is

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<sup>33</sup> EPA generally characterizes long-term stewardship activities as activities that ensure (1) ongoing protection of human health and the environment, (2) the integrity of remedial or corrective actions so they continue to operate properly, and (3) the ability of people to reuse sites in a safe and protective manner.

<sup>34</sup> Institutional controls are legal or administrative controls intended to minimize the potential for human exposure to contamination by limiting land or resource use. A local government is often the only entity that has legal authority to implement certain types of institutional controls (e.g., zoning restrictions).

<sup>35</sup> Engineering controls are the engineered physical barriers or structures designed to monitor and prevent or limit exposure to the contamination.

<sup>36</sup> The Uniform Environmental Covenants Act confirms the validity of environmental covenants (i.e., institutional controls/land use controls) by ensuring that land use restrictions, mandated environmental monitoring requirements, and a wide range of common engineering controls designed to control the potential environmental risk of residual contamination will be reflected in land records and effectively enforced over time. Currently, about one-half of U.S. States have passed a Uniform Environmental Covenants Act. Uniform Environmental Covenants Act, drafted by the National Conference of Commissioners on Uniform State Laws, August 2003.

<sup>37</sup> GAO, *Hazardous Waste Sites: Improved Effectiveness of Controls at Sites Could Better Protect the Public*, GAO-05-163 January 28, 2005. See also U.S. EPA, Superfund Website on institutional controls.

<sup>38</sup> U.S. EPA Website, Superfund Information Systems, *Published Institutional Control Site Reports for All Regions*.

<sup>39</sup> EPA-OIG, *Some States Cannot Address Assessment Needs and Face Limitations in Meeting Future Superfund Cleanup Requirements*, Report No. 2004-P-00027, September 2004.

<sup>40</sup> *The Detroit News*, "Michigan Out of Cash to Clean Up Toxic Sites," March 4, 2010.

<sup>41</sup> EPA-OIG, *Improved Controls Would Reduce Superfund Backlogs*, Report No. 08-P-0169, June 2, 2008.

<sup>42</sup> EPA-OIG, *EPA Decisions to Delete Superfund Sites Should Undergo Quality Assurance Review*, Report No. 08-P-0235, August 20, 2008.

<sup>43</sup> EPA-OIG, *EPA Has Improved Five-Year Review Process for Superfund Remedies, But Further Steps Needed*, Report No. 2007-P-00006 December 5, 2006; EPA-OIG, *EPA's Safety Determination for Delatte Metals Superfund Site Was Unsupported*, Report No. 09-P-0029, November 19, 2008.

noncompliant.<sup>44</sup> We have found that EPA relies on the self-certification of a third-party environmental professional to determine whether statutorily required environmental due diligence has been performed at Brownfields sites funded by EPA grants.<sup>45</sup> EPA also conducts no oversight of the requirement to meet “continuing obligations” at Brownfields properties funded by EPA. Continuing obligations include land use controls and institutional controls designed to prevent unacceptable uses of a contaminated properties.<sup>46</sup> Weaknesses or lapses in meeting environmental due diligence or continuing obligations requirements can result in undetected or undisclosed contamination and inappropriate land use. Although EPA recognized at least 5 years ago that implementing and enforcing institutional controls was a challenge because of its limited authority in this area, EPA does not conduct oversight of these activities even at sites supported with EPA money.

Our January 2010 report found new contamination at a deleted Superfund site in Delaware where EPA conducted informal and undocumented oversight of the site reuse plans.<sup>47</sup> The current site owner had nearly finalized plans for reusing the site for public recreation but in a manner that was inconsistent with the site clean-up plan. EPA had not kept current with the site reuse plans. In addition, EPA did not issue a Ready for Reuse (RfR) determination for this site because it believed it was not necessary. An RfR could potentially address some of the internal challenges to ensuring safe reuse of contaminated sites. However, RfRs are not required to be completed and have been treated as discretionary. Nonetheless, EPA has held up RfRs as providing the necessary “limitations that need to be followed to ensure [site] protectiveness.” An RfR was not issued for the site reviewed in our January 2010 report because site managers seemed to believe an RfR was only needed to aid the real estate market. At another Superfund site, we also found that EPA did not take action to address a 6-year gap in environmental sampling that the State should have conducted.<sup>48</sup> This type of oversight weakness can result in a failure to detect conditions that show a clean-up remedy is not protecting human health and the environment.

Only in the last several years has EPA focused attention on the long-term stewardship aspects of contaminated sites across its clean-up programs. EPA’s management of the long-term oversight and monitoring requirements for the safe reuse of contaminated sites has lagged behind the Agency’s marketing of site reuse opportunities and its showcasing of successes. This gap promises to increase substantially as EPA continues to heavily promote the reuse of contaminated sites without investing in the tools needed to ensure the safe, long-term use of these sites. Many Superfund sites are now moving to the long-term monitoring phase with more sites expected to do so in the future.<sup>49</sup> EPA’s December 2008 report on future Superfund workload needs states that the “post-construction” workload will require the greatest increase in

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<sup>44</sup> EPA-OIG, *EPA Needs to Track Compliance with Superfund Cleanup Requirements*, Report No. 08-P-0141, April 28, 2008.

<sup>45</sup> EPA-OIG Assignment No. 2010-0008 on whether Brownfield grantees meet “All Appropriate Inquiry” requirements to investigate and disclose environmental conditions.

<sup>46</sup> U.S. EPA, *Brownfields Fact Sheet, EPA Brownfields Grants CERCLA Liability and All Appropriate Inquiries*, EPA 560-F-09-026, April 2009.

<sup>47</sup> EPA-OIG, *Changes in Conditions at Wildcat Landfill Superfund Site in Delaware Call for Increased EPA Oversight*, Report No. 10-P-0055, January 27, 2010.

<sup>48</sup> EPA-OIG Assignment No. 2008-0018 to test and review results of long-term monitoring efforts at several deleted Superfund sites.

<sup>49</sup> U.S. EPA, *Long-Term Stewardship: Ensuring Environmental Site Cleanups Remain Protective Over Time: Challenges and Opportunities Facing EPA’s Cleanup Programs*, EPA 500-R-05-001, September 2005.

coming years and will increase by 89 percent over the current full-time equivalent distribution.<sup>50</sup> EPA will continually need to assess challenges it faces as well as challenges among the diverse group of non-EPA parties it must work with to ensure sites are safely reused. To address the challenges, these assessments should include consideration of new or expanded authorities and regulations, new organizations, new methods of sharing information, and dedicated funding and resources for long-term stewardship activities.

In its Fiscal Year 2009 Performance and Accountability Report, EPA agreed with the recommendations in this challenge. EPA also stated that it works closely with State and local governments to ensure mechanisms such as institutional controls are maintained to permit safe reuse of sites. It stated that EPA conducts 5-year reviews; has procedures in place to ensure 5-year reviews are properly conducted and Superfund sites are properly deleted; encourages State enforcement of clean-up agreements; and is working to complete draft guidance on tracking substantial noncompliance with Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) enforcement instruments.

We recognize improvements and efforts EPA has made and it must continue to make to address the significant challenges of ensuring the long-term safety of contaminated sites. Our work and the Agency's work have shown that these challenges derive from internal challenges that EPA can address through improved oversight and management of activities inherent to successful long-term stewardship of contaminated sites. However, successful long-term stewardship also rests on having properly resourced and informed non-EPA parties who have ongoing access to current information, are actively involved in compliance, and conduct appropriate due diligence and oversight of contaminated sites. EPA is highly limited in addressing this challenge when State or local governments with primary responsibility for addressing many long-term safety issues have neither the money nor the will to do so. The lessons from recent issues such as vapor intrusion show that site reuse can generate new environmental risks. New strategies are needed that take EPA beyond merely encouraging non-EPA parties to fulfill requirements and duties and focus on providing EPA, and the parties they must work with, the information, resources, and authorities to ensure long-term safety of reused sites.

### **Limited Capability to Respond to Cyber Security Attacks**

EPA has a limited capacity to effectively respond to external network threats despite reports from security experts that Advanced Persistent Threats (APTs) designed to steal or modify information without detection are becoming more prevalent throughout the government.<sup>51</sup> Our ongoing analysis shows that the Agency has not addressed the challenge of remediating escalating threats from cyber security attacks. To date, EPA has reported that over 5,000 servers and user workstations may have been compromised as a result of recent cyber security attacks. These compromised systems extend to every EPA regional office and Headquarters. Moreover, ongoing work disclosed that EPA could not identify the owners of approximately 10 percent of the Internet Protocol (IP) addresses that are potentially compromised due to an APT.<sup>52</sup>

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<sup>50</sup> U.S. EPA, *Superfund Workload Assessment Report*, OSWER Document 9200-2-81, December 2, 2008. Postconstruction workload can refer to all activities after a clean-up remedy is constructed. This workload includes long-term monitoring and reuse activities.

<sup>51</sup> *Federal Computer Week*, "Google Attacks: A Wake-up Call or Curtain Call for Agencies?" February 4, 2010.

<sup>52</sup> Electronic mail from EPA's Computer Security Incident Response Capability Center, April 6, 2010.

Our Office of Cyber Investigations and Homeland Security attempted to work with EPA's Office of Technology Operations and Planning (OTOP) to develop an Agency-wide plan of action to investigate and combat the current threat, but OTOP has not agreed to take actions we recommend to improve EPA's awareness of and capability to respond to ongoing APTs. During the course of our investigation, OTOP implemented firewall blocks on known IP addresses and utilized a Domain Name Service "blackholing" technique<sup>53</sup> to further identify systems that may be communicating with possibly hostile Internet sites. However, when Agency management was questioned about this technique and the fact that it cast suspicion on over 5,000 EPA computer systems, the Agency pulled back, stating that it was not confident that these computers were actually compromised. Moreover, EPA declared that it had no means to scan these systems for compromises. We subsequently suggested a solution in which EPA would fund a contract to install hardware on the network and an agent (a small computer program) on each EPA computer. Our solution would allow for remote acquisition of the computer's memory and hard drive, as well as automatically scan all EPA computer systems to identify relevant data pertaining to the APT. The Agency did not agree to implement our suggested solution.

Security of EPA's network greatly depends on ongoing public- and private-sector partnerships led by the United States Computer Emergency Readiness Team (US-CERT).<sup>54</sup> The unknown origins of many cyber attacks and the complex ways they compromise data networks<sup>55</sup> make this ongoing collaboration crucial to the security of EPA's network. EPA relies heavily on US-CERT to identify external threats, develop technical solutions, and coordinate government-wide responses to cyber attacks because the Agency currently lacks the funds, forensic tools, and technical expertise to establish this capability internally. EPA's overreliance on information provided by US-CERT is further compounded by limited follow-up activities to investigate the extent of and impact on Agency systems. For example, US-CERT provided multiple alerts to the ongoing APT, yet EPA performed limited actions to validate system compromises. Because EPA reported what may be many false positives regarding possible compromises, our office must expend excessive time and travel resources to acquire images and forensically analyze systems. The rejection of an automated approach further hinders our work and impacts Agency security.

The mission of US-CERT is to protect the Nation's Internet infrastructure and to coordinate defense against and responses to cyber attacks across the Nation.<sup>56</sup> Accordingly, it disseminates actionable cyber security information to EPA's Computer Security Incident Response Capability Center (CSIRC), whose goal is to protect EPA information assets and respond to actual and potential incidents.<sup>57</sup> As such, EPA's CSIRC is expected to have sufficient technical expertise and resources to coordinate rapid and highly skilled responses to incidents of malicious attacks on its network.

The results of our ongoing analysis and prior audits lead us to conclude that CSIRC has neither the technical knowledge nor resources to actively pursue a course of action that will enable EPA to promptly identify and effectively remedy ongoing cyber threats. Although EPA currently monitors network traffic to identify hostile traffic at its Internet choke points, the evidence shows that EPA should conduct more detailed analysis to better understand and combat the insidious nature of these cyber attacks. The Agency does not have the resources, in equipment and staff,

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<sup>53</sup> A Domain Name Service converts host names and domain names into IP addresses on the Internet. The "blackholing" technique is used to deny a route to a machine for a particular IP address or domain. Figures cited based on data provided by OTOP.

<sup>54</sup> US-CERT Web Site, <http://www.us-cert.gov/aboutus.html>.

<sup>55</sup> *CNN.com/technology*, "U.S. Government Sites among Those Hit by Cyberattack," July 8, 2009.

<sup>56</sup> US-CERT Web Site, <http://www.us-cert.gov/aboutus.html>.

<sup>57</sup> U.S. EPA Intranet, [http://cfint.rtpnc.epa.gov/otop//security/csirc/about\\_us.cfm](http://cfint.rtpnc.epa.gov/otop//security/csirc/about_us.cfm).

to adequately assess attacks against its infrastructure. Rather, EPA continues to depend on others to specifically identify whether systems are actually compromised. It relies on (1) US-CERT to alert it to hostile activity originating from within EPA's domain space, and (2) a monitoring device, NIKSUN, acquired by our office. In addition, our offers to train EPA information security officers and other key information technology personnel on proper first response methods were rejected because the Agency believes that first response is not its responsibility.

EPA leadership must meet this challenge head-on by sufficiently funding the development of a real capability to identify and investigate attacks against EPA's computer and network systems. Moreover, Congress should fully consider EPA's new budget proposals to ensure that the Agency has the fiscal capacity to tackle this challenge. EPA management cannot continue to rely on a "pay as you go" mentality; rather, EPA needs an established budget for managing information technology infrastructure and security. Key leaders must understand the threats that exist to EPA's confidential business information and the importance of minimizing those risks. Furthermore, the Chief Information Officer and OTOP leadership should carefully study and trust the classified intelligence materials provided to them regarding threats against government domains. The Agency should also develop a method to disseminate sensitive information, including classified data, to senior leadership and technical staff, especially when the network is reportedly (5,000 plus systems) compromised.

Moreover, EPA should acquire forensic tools and experienced technical specialists to analyze and determine whether attackers have gained entry to EPA's network systems, what they did while within EPA's domain space, what information was compromised, and what information may have been maliciously removed from the EPA network. This information is not only necessary for EPA's operational mission, but is also necessary to preserve the crime scene associated with the intrusion event. EPA also should compile a better inventory of network assets, including intellectual properties, and identify where data sit on its network. And, finally, EPA should deploy a better method of identifying and authenticating individuals allowed to access EPA's network. Only then will EPA be able to execute a strategy that effectively protects its resources, infrastructure, and intellectual property from individuals and entities that intend to do harm.

In addition, EPA should aggressively address previously reported security weaknesses to strengthen its ability to detect and respond to network attacks.<sup>58</sup> In particular, EPA should:

- Implement a process that tracks IP address assignments and documents the origin of all active IP addresses so responders can take quicker steps to minimize harm caused by APTs.<sup>59</sup>
- Implement a vulnerability management program to proactively identify and correct commonly known vulnerabilities before they can be exploited.<sup>60</sup>
- Communicate high-risk vulnerability alerts more effectively throughout the Agency and follow up with responsible parties to ensure satisfactory remediation.<sup>61</sup>

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<sup>58</sup> EPA-OIG, *Project Delays Prevent EPA from Implementing an Agency-wide Information Security Vulnerability Management Program*, Report No. 09-P-0240, September 21, 2009.

<sup>59</sup> EPA-OIG, *Management of EPA Headquarters Internet Protocol Addresses Needs Improvement*, Report No. 08-P-0273, September 23, 2008.

<sup>60</sup> EPA-OIG, *Project Delays Prevent EPA from Implementing an Agency-wide Information Security Vulnerability Management Program*, Report No. 09-P-0240, September 21, 2009.

<sup>61</sup> EPA-OIG, *EPA Needs to Strengthen Financial Database Security Oversight and Monitor Compliance*, Report No. 2007-P-00017, March 29, 2007.

- Verify that EPA's numerous Information Security Officers are adequately skilled to conduct regular vulnerability tests of their respective local area networks and systems, as well as successfully recognize and remediate high and medium risks in a uniform and acceptable manner.<sup>62</sup>
- Take steps to improve the reliability of data used to assess the status of its information security program and posture with regard to known network threats.<sup>63</sup>

Taking these actions would enhance EPA's ability to effectively: (1) identify what key data (intellectual, confidential, privacy) has been stolen, (2) determine collateral damage to the Agency's trusted business partners, and (3) remediate threats as they occur. The Agency's limitation in these areas is alarming, because information security experts believe that a large-scale cyber attack could be as devastating to the U.S. economy and infrastructure as a terrorist bombing.<sup>64</sup>

EPA leadership should acknowledge the seriousness of this challenge by taking aggressive steps to enhance the Agency's cyber security capabilities. EPA leadership must realize that these APTs are spurred by organized, funded, and trained entities that are intent on obtaining and compiling sensitive U.S. data to use against our government. Adequate funding and a coordinated technical strategy would enable EPA to identify an attack signature or methodology or other information that would aid in the battle against parties intent on targeting valuable U.S. data. Then, the Agency would be positioned to share that information and provide a basis for other federal agencies to replicate these actions within their individual domains. The sharing of intellectual information about APTs will enhance the government's position, and prompt actions by EPA could establish it as a leader in government-wide efforts to combat this growing threat.

## Reducing Domestic Greenhouse Gas Emissions

In April 2007, the U.S. Supreme Court ruled in the *Massachusetts v. EPA* case that greenhouse gases (GHGs) are air pollutants under the Clean Air Act (CAA).<sup>65</sup> The Supreme Court also ruled that EPA must determine whether GHG emissions from new motor vehicles cause or contribute to air pollution, which in turn could reasonably be anticipated to endanger public

<sup>62</sup> EPA-OIG, *Results of Technical Network Vulnerability Assessment: Region 9*, Report No. 09-P-0052, December 9, 2008; EPA-OIG, *Results of Technical Network Vulnerability Assessment: EPA's Radiation and Indoor Environments National Laboratory*, Report No. 09-P-0053, December 9, 2008; EPA-OIG, *Results of Technical Network Vulnerability Assessment: EPA's Las Vegas Finance Center*, Report No. 09-P-0054, December 9, 2008; EPA-OIG, *Results of Technical Network Vulnerability Assessment: EPA's Research Triangle Park Campus*, Report No. 09-P-0055, December 9, 2008; EPA-OIG, *Results of Technical Network Vulnerability Assessment: EPA Headquarters*, Report No. 09-P-0097, February 23, 2009; EPA-OIG, *Results of Technical Network Vulnerability Assessment: EPA's Great Lakes National Program Office*, Report No. 09-P-0185, June 30, 2009; EPA-OIG, *Results of Technical Network Vulnerability Assessment: EPA's National Computer Center*, Report No. 09-P-0186, June 30, 2009; EPA-OIG, *Results of Technical Network Vulnerability Assessment: Region 8*, Report No. 09-P-0187, June 30, 2009; EPA-OIG, *Results of Technical Network Vulnerability Assessment: EPA's Potomac Yard Buildings*, Report No. 09-P-0188, June 30, 2009; EPA-OIG, *Results of Technical Network Vulnerability Assessment: EPA's 1310 L Street Building*, Report No. 09-P-0189, June 30, 2009; EPA-OIG, *Results of Technical Network Vulnerability Assessment: EPA's Research Triangle Park Finance Center*, Report No. 09-P-0227, August 31, 2009.

<sup>63</sup> EPA-OIG, *Self-reported Data Unreliable for Assessing EPA's Computer Security Program*, Report No. 10-P-0058, February 2, 2010.

<sup>64</sup> CNN.com/technology, "U.S. at Risk of Cyber Attacks, Experts Say," August 18, 2008.

<sup>65</sup> Supreme Court of the United States, Syllabus, *Massachusetts et al. v. Environmental Protection Agency et al.*, Case No. 05-1120, Certiorari to the United States Court of Appeals for the District of Columbia Circuit, Argued November 29, 2006, Decided April 2, 2007.

health or welfare. In response to the Supreme Court decision, EPA issued an endangerment finding in December 2009 stating that the current and projected atmospheric concentrations of six GHGs (carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride) threaten the public health and welfare of current and future generations.<sup>66</sup> EPA also determined that new motor vehicles threaten public health and welfare, as defined under CAA Section 202(a), because they contribute to GHG pollution. The issuance of these findings means that EPA must address the adverse impacts of this new set of air pollutants.<sup>67</sup> Addressing these impacts is a significant undertaking, similar to EPA's establishment of the six CAA criteria pollutants in the 1970s.<sup>68</sup>

EPA is addressing domestic GHG emissions through three avenues: (1) regulations, (2) voluntary programs, and (3) research and development.<sup>69</sup> Each presents the Agency with challenges that are to some extent beyond EPA's direct control.

- **Regulations.** EPA is regulating GHG emissions without specific legislation establishing a GHG program,<sup>70</sup> and in the midst of political and private opposition.<sup>71</sup>
- **Voluntary Programs.** EPA is relying on voluntary programs to reduce GHG emissions, but some of these reductions are based on limited, unverified, and anonymous data.<sup>72</sup>
- **Research and Development.** EPA is relying on multiagency research organizations for the information and tools to help address GHGs,<sup>73</sup> and to accelerate the development of new and advanced GHG reduction technologies.<sup>74</sup> Consequently, EPA has limited control over the content, conduct, and timing of this research.

EPA has begun developing regulations to control GHG emissions from vehicles<sup>75</sup> and large industrial facilities,<sup>76</sup> and plans to develop other GHG regulations,<sup>77</sup> but there is no statutory

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<sup>66</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Chapter I, *Endangerment and Cause or Contribute Findings for Greenhouse Gases Under Section 202(a) of the Clean Air Act, Final Rule*, December 15, 2009.

<sup>67</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Chapter I, *Endangerment and Cause or Contribute Findings for Greenhouse Gases Under Section 202(a) of the Clean Air Act, Proposed Rule*, April 24, 2009.

<sup>68</sup> Kreutzer, David, PhD, and Karen Campbell, PhD, The Heritage Foundation, *CO2-Emission Cuts: The Economic Costs of the EPA's ANPR Regulations*, Center for Data Analysis Report #08-10, October 29, 2008.

<sup>69</sup> U.S. EPA Website, information on U.S. and EPA change regulatory initiatives, policies, and actions.

<sup>70</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Chapter I, *Regulating Greenhouse Gas Emissions Under the Clean Air Act, Proposed Rule*, July 30, 2008; *Federal Register*, Environmental Protection Agency, 40 CFR Parts 86, 87, 89, et al., *Mandatory Reporting of Greenhouse Gases, Final Rule*, October 30, 2009; U.S. EPA Administrator's letter to Senator Rockefeller concerning EPA's work to comply with the Supreme Court's decision in *Massachusetts v. EPA*, February 22, 2010.

<sup>71</sup> Bravender, Robin, "16 'Endangerment' Lawsuits Filed Against EPA Before Deadline," *New York Times*, February 17, 2010; Berger, Matthew, "GOP Protest Builds Against EPA Regulating Greenhouse Gases," *Solve Climate Blog*, December 30, 2009.

<sup>72</sup> EPA-OIG, *Voluntary Greenhouse Gas Reduction Programs Have Limited Potential*, Report No. 08-P-0206, July 23, 2008.

<sup>73</sup> EPA-OIG, *EPA Needs a Comprehensive Research Plan and Policies to Fulfill its Emerging Climate Change Role*, Report No. 09-P-0089, February 2, 2009; Pielke, Roger A., Jr., "Scientific Information and Global Change Policymaking," *Climate Change* 28: 315-19, 1994.

<sup>74</sup> C-Span video archives, EPA Administrator's Address to the National Press Club on the Agency's Key Priorities, March 8, 2010, at 00:24:04 and 00:25:48.

<sup>75</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Parts 86 and 600, Department of Transportation – National Highway Traffic Safety Administration, 49 CFR Parts 531, 533, 537, et al.,

language that specifically establishes a GHG emissions reduction program<sup>78</sup> beyond new motor vehicles.<sup>79</sup> Without such language, EPA is relying on its interpretation of its authorities under the CAA to regulate GHG emissions from thousands of sources,<sup>80</sup> which could increase the risk of legal challenges to its GHG rules.<sup>81</sup> Industry groups, policy institutes, selected lawmakers, and three States have already filed 16 lawsuits challenging EPA's December 2009 endangerment finding.<sup>82</sup> Additionally, some lawmakers have proposed legislation to veto EPA's endangerment finding and stop the Agency from regulating GHGs.<sup>83</sup> Such political and private opposition make it more difficult for EPA to obtain the information it needs to develop and sustain GHG regulations.

To regulate sources of the six GHGs, EPA needs quality emissions data from GHG sources, assessments of the effectiveness of available GHG emissions reduction technologies, cost-benefit and cost-effectiveness analyses of regulatory control options, and assessments of the effectiveness of long-term storage of captured GHGs.<sup>84</sup> Obtaining quality information to develop and sustain regulatory decisions – already a difficult, lengthy process<sup>85</sup> – can be even more challenging when sources challenge the legal basis of the Agency's rules. For example, the 1990 CAA Amendments required that EPA address the hazards of mercury from a single source category – power plants.<sup>86</sup> Amid controversies and challenges, the Agency took about 15 years<sup>87</sup> to issue mercury regulations for coal-fired power plants, which were subsequently

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*Proposed Rulemaking to Establish Light-Duty Vehicle Greenhouse Gas Emission Standards and Corporate Average Fuel Economy Standards, Proposed Rule*, September 28, 2009.

<sup>76</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Parts 51, 52, 70, and 71, *Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule, Proposed Rule*, September 30, 2009.

<sup>77</sup> U.S. EPA Administrator's February 22, 2010 letter to Senator Rockefeller concerning EPA's work to comply with the Supreme Court's decision in *Massachusetts v. EPA*.

<sup>78</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Chapter I, *Regulating Greenhouse Gas Emissions Under the Clean Air Act, Proposed Rule*, July 30, 2008.

<sup>79</sup> Supreme Court of the United States, Syllabus, *Massachusetts et al. v. Environmental Protection Agency et al.*, Case No. 05-1120, Certiorari to the United States Court of Appeals for the District of Columbia Circuit, Argued November 29, 2006, Decided April 2, 2007.

<sup>80</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Chapter I, *Regulating Greenhouse Gas Emissions Under the Clean Air Act, Proposed Rule*, July 30, 2008; and *Federal Register*, Environmental Protection Agency, 40 CFR Parts 51, 52, 70, and 71, *Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule, Proposed Rule*, September 30, 2009.

<sup>81</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Chapter I, *Regulating Greenhouse Gas Emissions Under the Clean Air Act, Proposed Rule*, July 30, 2008.

<sup>82</sup> Bravender, Robin, "16 'Endangerment' Lawsuits Filed Against EPA Before Deadline," *New York Times*, February 17, 2010.

<sup>83</sup> Berger, Matthew, "GOP Protest Builds Against EPA Regulating Greenhouse Gases," *Solve Climate Blog*, December 30, 2009.

<sup>84</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Chapter I, *Regulating Greenhouse Gas Emissions Under the Clean Air Act, Proposed Rule*, July 30, 2008.

<sup>85</sup> EPA-OIG, *Additional Analyses of Mercury Emissions Needed Before EPA Finalizes Rules for Coal-Fired Electric Utilities*, Report No. 2005-P-00003, February 3, 2005; EPA-OIG, *Monitoring Needed to Assess Impact of EPA's Clean Air Mercury Rule on Potential Hotspots*, Report No. 2006-P-00025, May 15, 2006; U.S. EPA Website, information on Agency's efforts to research and control mercury from power plants.

<sup>86</sup> Clean Air Act Amendments of 1990, Section 112(n)(1).

<sup>87</sup> EPA-OIG, *Additional Analyses of Mercury Emissions Needed Before EPA Finalizes Rules for Coal-Fired Electric Utilities*, Report No. 2005-P-00003, February 3, 2005; EPA-OIG, *Monitoring Needed to Assess Impact of EPA's Clean Air Mercury Rule on Potential Hotspots*, Report No. 2006-P-00025, May 15, 2006; and U.S. EPA Website, information on the Agency's efforts to research and control mercury from power plants.



vacated by the court in 2008.<sup>88</sup> To control the six GHGs, EPA will not only have to address power plants, but also new source categories.<sup>89</sup> According to the Administrator, efforts to reduce GHGs will touch practically every part of the U.S. economy.<sup>90</sup> The economic challenges of controlling GHG emissions sector by sector through regulations will mean that innovation and new technologies beyond EPA's direct control will be needed.<sup>91</sup>

In addition to regulations, EPA is relying on voluntary programs to reduce 45 million metric tons of carbon equivalents annually from the buildings, industry, and transportation sectors,<sup>92</sup> but some voluntary programs present challenges.<sup>93</sup> For example, three key voluntary programs (ENERGY STAR, Climate Leaders, and Clean Energy-Environment State Partnership) are joint partnerships between EPA, other federal/State/local agencies, and/or industries.<sup>94</sup> A major challenge with voluntary programs has been weaknesses in data collection and reporting systems.<sup>95</sup> These systems are neither transparent nor verifiable, and are limited by anonymous reporting and the use of third-party industry data. Some of the reported reductions from voluntary programs may be based on unreliable data, and are not within EPA's direct control.

EPA is relying on two multiagency research and development programs (U.S. Global Change Research Program (USGCRP) and the Climate Change Technology Program (CCTP) to better understand the effects and risks of climate change, and to develop new technologies to reduce GHG emissions.<sup>96</sup> Important questions remain about the degree to which climate change will occur, how fast it will occur, and how the changes will affect the rest of the climate system.<sup>97</sup> EPA is part of the 13-agency USGCRP<sup>98</sup> effort to improve understanding of the science of climate change and its potential impacts.<sup>99</sup> EPA fulfills its USGCRP role through the Agency's Global Change Research Program (GCRP), whose primary emphasis is to understand the potential consequences of climate variability and change on human health, ecosystems, and socioeconomic systems in the United States.<sup>100</sup> EPA regions and State/local agencies rely on GCRP and USGCRP for information and tools to help them fulfill their regulatory responsibilities.<sup>101</sup> Whether the regions and State/local agencies get the information and tools they need in a timely manner is not fully within their control. The CCTP, a multiagency effort led by the U.S. Department of Energy (DOE), is supposed to accelerate the development of new

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<sup>88</sup> U.S. EPA Website, information on the Clean Air Mercury Rule.

<sup>89</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Chapter I, *Regulating Greenhouse Gas Emissions Under the Clean Air Act, Proposed Rule*, July 30, 2008.

<sup>90</sup> C-Span video archives, EPA Administrator's Address to the National Press Club on the Agency's Key Priorities, March 8, 2010, at 00:32:38.

<sup>91</sup> *Federal Register*, Environmental Protection Agency, 40 CFR Chapter I, *Regulating Greenhouse Gas Emissions Under the Clean Air Act, Proposed Rule*, July 30, 2008.

<sup>92</sup> U.S. EPA, *Performance and Accountability Report for Fiscal Year 2009*, November 16, 2009.

<sup>93</sup> EPA-OIG, *Voluntary Greenhouse Gas Reduction Programs Have Limited Potential*, Report No. 08-P-0206, July 23, 2008.

<sup>94</sup> U.S. EPA Website, *Current and Near-Term Greenhouse Gas Reduction Initiatives*.

<sup>95</sup> EPA-OIG, *Voluntary Greenhouse Gas Reduction Programs Have Limited Potential*, Report No. 08-P-0206, July 23, 2008.

<sup>96</sup> U.S. EPA Website, information on U.S. and EPA change regulatory initiatives, policies, and actions; U.S. EPA, *Performance and Accountability Report for Fiscal Year 2009*, November 16, 2009.

<sup>97</sup> U.S. EPA, *Performance and Accountability Report for Fiscal Year 2009*, November 16, 2009, page II-6.

<sup>98</sup> U.S. Global Change Research Program Website, *Participating Departments and Agencies in USGCRP*.

<sup>99</sup> U.S. Global Change Research Program Website, "About/Program Overview."

<sup>100</sup> U.S. EPA Website, information on EPA's Global Change Research Program.

<sup>101</sup> EPA-OIG, *EPA Needs a Comprehensive Research Plan and Policies to Fulfill its Emerging Climate Change Role*, Report No. 09-P-0089, February 2, 2009; Pielke, Roger A., Jr., "Scientific Information and Global Change Policymaking," *Climate Change* 28: 315-19, 1994.

and advanced technologies to address climate change.<sup>102</sup> Some climate-change-related technologies being explored within CCTP are terrestrial sequestration (U.S. Department of the Interior), biofuels (DOE), fuel cells (U.S. Department of Defense), and ENERGY STAR products (EPA). EPA recognizes that creativity and innovation, among other things, will be needed to meet these challenges.<sup>103</sup> Such innovations are beyond EPA's direct control.<sup>104</sup>

### **EPA's Framework for Assessing and Managing Chemical Risks**

EPA's framework for assessing and managing chemical risks has not yet achieved the goal of protecting human health and the environment. In 1976, Congress passed the Toxic Substances Control Act (TSCA) authorizing EPA to collect information on, and to regulate the production and distribution of, chemicals. TSCA required EPA to (1) create an inventory of "existing chemicals" already in commerce, (2) regulate unreasonable risk from "new chemicals" introduced into commerce subsequent to the Act, and (3) make health and safety information available for examination while protecting manufacturers' confidential business information. We recently reported that EPA's New Chemicals Program had limitations in three processes intended to identify and mitigate new risks – assessment, oversight, and transparency.<sup>105</sup> Moreover EPA's performance measures for managing risks from new chemicals do not accurately reflect program performance in preventing risk, nor do they assure compliance.

EPA's effectiveness in assessing and managing chemical risks is hampered in part by limitations on the Agency's authority to regulate chemicals under TSCA. When TSCA was enacted, it authorized the manufacture and use, without any evaluation, of all chemicals that were produced for commercial purposes in 1976 or earlier years. Thus, manufacturers of these grandfathered chemicals were not required to develop and produce data on toxicity and exposure, which are needed to properly and fully assess potential risks. Further compounding this problem, the statute never provided adequate authority for EPA to evaluate existing chemicals as new concerns arose or as new scientific information became available. Enforcement is also critical to ensuring environmental protection, but TSCA lacks the broad information-gathering and enforcement provisions found in other major environmental protection statutes. For example, TSCA lacks the administrative authority to seek injunctive relief, issue administrative orders, collect samples, and quarantine and release chemical stocks, among other key authorities.

On September 29, 2009, the Administration outlined core principles to strengthen U.S. chemical management laws.<sup>106</sup> Administrator Jackson testified before Congress on December 2, 2009,<sup>107</sup> on the need to revise and modernize TSCA, but the Agency's toxics chief recently indicated that TSCA reform is "unlikely" this congressional session.<sup>108</sup> However, in the absence

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<sup>102</sup> DOE, U.S. Climate Change Technology Program, *Vision and Framework for Strategy and Planning*, Report No. DOE/PI-0005, September 2006.

<sup>103</sup> C-Span video archives, EPA Administrator's Address to the National Press Club on the Agency's Key Priorities, March 8, 2010, at 00:24:04 and 00:25:48.

<sup>104</sup> DOE, U.S. Climate Change Technology Program, *Vision and Framework for Strategy and Planning*, Report No. DOE/PI-0005, September 2006.

<sup>105</sup> EPA-OIG, *EPA Needs a Coordinated Plan to Oversee its Toxic Substances Control Act Activities 10-P-0066*, February 17, 2009.

<sup>106</sup> U.S. EPA, *Essential Principles for Reform of Chemicals Management Legislation*, September 29, 2009.

<sup>107</sup> U.S. Senate, Committee on Environment and Public Works, Oversight Hearing on the Federal Toxic Substances Control Act, December 2, 2009.

<sup>108</sup> EPA Toxics Chief, Steve Owens, made these remarks during the Environmental Council of States' spring meeting on March 24, 2010. However, on April 15, 2010, two members of Congress (Sen.

of new legislation, we found EPA could better manage existing authorities. EPA does not have integrated procedures and measures in place to ensure that new chemicals entering commerce do not pose an unreasonable risk to human health and the environment. Oversight of regulatory actions designed to reduce known risks is a low priority, and the resources allocated by EPA are not commensurate with the scope of monitoring and oversight work. In addition, EPA's procedures for handling confidential business information requests are predisposed to protect industry information rather than to provide public access to health and safety studies.

EPA's framework for assessing and managing chemical risks from endocrine disruptors is also failing to show results. In August 1996, Congress passed both the Food Quality Protection Act and amendments to the SDWA, calling for the screening and testing of chemicals and pesticides for possible endocrine-disrupting effects (i.e., adverse effects on the development of the brain and nervous system, the growth and function of the reproductive system, as well as the metabolism and blood sugar levels). EPA established the Endocrine Disruption Screening Program (EDSP) in 1998.<sup>109</sup> The EDSP was mandated to use validated methods for the screening and testing of chemicals to identify potential endocrine disruptors. In 2000, EPA estimated that approximately 87,000 chemicals would need to be screened for potential endocrine-disrupting effects. As of February 25, 2010, EPA issued test orders to industry for 67 pesticide active ingredients and high-production volume chemicals with some pesticide inert uses. Thus, 14 years after the passage of the Food Quality Protection Act and amendments to the SDWA, EPA has yet to regulate the endocrine-disrupting effects of any chemicals.

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Lautenberg and Rep. Waxman) introduced legislation in their respective chambers to overhaul TSCA, though activists and others note that extensive stakeholder discussions on each bill could delay passage of TSCA reform legislation until next year.

<sup>109</sup> *Federal Register*, Environmental Protection Agency, *Endocrine Disruptor Screening Program*, August 11, 1998.

## **EPA's Response to Office of Inspector General (OIG) Management Challenges** (PREPARED BY EPA)

### **Need for a National Environmental Policy**

**Summary of Challenge:** *OIG believes that a national environmental policy is needed to help EPA and other federal agencies ensure a comprehensive approach to environmental protection. While EPA's 2006-2011 Strategic Plan includes cross-media initiatives, it does not describe national goals that go beyond EPA's current mission and goal structure. OIG notes that Congress needs to provide EPA and other federal agencies the capacity to identify and manage environmental problems of national significance. Further, Congress and the Administration should examine ways to leverage resources. The Administration should propose to Congress the creation of expert panels to formulate a national environmental policy and subsequent quadrennial reviews of federal responsibilities.*

**Agency Response:** OIG's report asserts that there is no overarching environmental policy or framework governing environmental issues that cut across the federal government. In fact, a national environmental policy does exist in the form of authorizing statutory goals and mandates embodied in the National Environmental Policy Act (NEPA) and in the various media-specific authorities under which EPA and other agencies operate. For example, NEPA provides as its "purpose:"

To declare a national policy which will encourage productive and enjoyable harmony between man and his environment; to promote efforts which will prevent or eliminate damage to the environment and biosphere and stimulate the health and welfare of man; to enrich the understanding of the ecological systems and natural resources important to the Nation; and to establish a Council on Environmental Quality.

EPA is organized consistent with its Congressional statutes, and this is entirely appropriate. Reorganizing the agency in some other manner to create more integration across media would simply create new stovepipes of a different nature. Under any organizational structure, EPA and the federal agencies must use matrix management. For example, if organized by function as suggested in the draft report (e.g., separate offices for standard-setting, monitoring, permitting, enforcement), there would have to be subunits within each of the major programs to deal with specific media (a water subunit within the Enforcement Office). Those subunits would then have to coordinate across the Agency (all water subunits within the various offices would have to coordinate standard setting, monitoring, permitting, etc.). It is entirely possible that, if the Agency had been structured along functional lines, we would now be bemoaning the fragmented nature of water regulations.

Efforts are also ongoing to assure intra-agency coordination across media. EPA uses high-level, cross-agency councils and committees to address coordination on topics such as science, environmental justice, Indian policy, agriculture, international activities, performance management, and information management. EPA has also established operating procedures to guarantee cross-program engagement on rules and policies. In addition, EPA establishes issue-specific initiatives as needed to deal with cross-media concerns. For example, EPA recently launched a cross-program initiative on the regulation of electric utilities. An initiative is also underway to better harmonize EPA's place-based activities.

EPA has had considerable success in achieving its mission, and is confident that success will continue in the future. The Agency's mission is already guided by statements of national policy and specific national objectives, as outlined in major existing environmental statutes. Like any

large organization, EPA must coordinate across disparate internal offices. However, these coordination issues would not disappear if the Agency were reorganized along different lines. Creating a new National Environmental Policy and Quadrennial Review framework would require a large investment of time and resources, but is not likely to substantially improve our environmental results.

### **Water and Wastewater Infrastructure**

**Summary of Challenge:** *Under the Clean Water Act (CWA) and the Safe Drinking Water Act (SDWA), EPA is responsible for assisting water and wastewater facilities in meeting their water treatment requirements. Many drinking water and wastewater systems across the country are unable to maintain compliance with federal water standards due to repairs and new constructions. OIG believes EPA needs to take the lead in developing a coherent federal strategy, within the limits of its statutory authorities and responsibilities, to assess the investment requirements and work with states and local governments to organize resources to meet water and wastewater infrastructure needs.*

**Agency Response:** Over the past year, based on input from state and local stakeholders EPA has been developing a Sustainability Policy which will help set the course for our future efforts across the water sector and with other federal agencies, including the incorporation of sustainability into the State Revolving Loan programs.

EPA also continues to work with partners across the water sector to promote sustainable water and wastewater systems based on the ten Attributes of an Effectively Managed Utility. This first-of-its-kind national collaboration enables utilities to operate under a common management framework, which is helping the sector move in a unified manner towards sustainability. Building on momentum with existing partners, EPA will be reaching out to those that represent smaller systems to ensure that the framework is adopted across the spectrum of large and small utilities.

Recognizing that water efficiency has significant implications for water infrastructure, EPA has continued to expand the WaterSense program, launched in 2006. The WaterSense label makes it easy for consumers to find products and services that save water while ensuring performance, thereby reducing the burden on infrastructure and mitigating water availability challenges. It also helps to build a national consciousness of the value of water and water services, which is essential to the national awareness and acceptance that everyone must help pay for our infrastructure needs. WaterSense milestones in the last year include the release of specifications for new homes and showerheads.

Sustainable Infrastructure has also been integrated into the Sustainable Communities partnership with the Department of Housing and Urban Development (HUD) and Department of Transportation (DOT). As our nation plans for future growth, we must ensure that water infrastructure and water quality are priorities as we develop policies to ensure sustainable communities. To that end, water infrastructure planning was integrated with other considerations in the \$100 million grant notice that was recently released by HUD. EPA is also conducting pilots with three states on incorporating sustainability into Clean Water Revolving Fund loan program priorities – both on the system and community levels. In these and other ways, EPA has taken a leading role with Federal partners and has worked to increase public awareness and appreciation of the need for sustainable water infrastructure. Expanding EPA's role could only come with increased authority and resources.

The following bullets give a summary of some of the other recent activities under the Sustainable Infrastructure Initiative:

- In May, EPA convened the regions and various Headquarters offices for a national meeting to better define and invigorate efforts to promote asset management. As a follow-up to the meeting, we are working to better integrate asset management into the daily work of the Regions, as well as permits and enforcement offices.
- In addition to the ongoing series of asset management training courses EPA offers across the country (40 sessions conducted over the last eight years), the Agency conducted two beta versions of a second asset management training course to deal with more advanced topics.
- EPA will continue its efforts to promote better management practices at the system level to improve system technical, managerial and financial capacity. Central to this effort is the Check Up Program for Small Systems (CUPSS) asset management software for drinking and wastewater systems. CUPSS is a free, easy-to-use, asset management tool for small drinking water and wastewater utilities. In partnership with state agencies and technical assistance providers, the Agency continues to promote and assist small systems to learning about and doing asset management by using CUPSS. By using proven outreach methods to assemble a national CUPSS training network, the Agency will be able to reach more small water and sewer utilities than ever before. A comprehensive marketing, user support, and training strategy will be fully implemented, with emphasis on leveraging our state and training assistance provider partners as the “CUPSS Trainer Network.”
- In the fall of 2009, EPA completed two workshops with EPA Regions 6 and 8 to introduce utilities to a program to improve their energy efficiency and management based on the Energy Management Guidebook for Wastewater and Drinking Water Utilities. Since the Guidebook was published in 2008, EPA has sponsored a total of 21 workshops around the country. EPA Regional offices are now working with over 100 utilities across the country to help them develop more detailed energy management programs based on the Guidebook.
- Growth of the WaterSense partnership to more than 500 promotional partners, 125 manufacturers, 130 retailer/distributors (including Lowe's and Home Depot), and 900 irrigation partners as of July, 2010. In 2009, WaterSense labeled products saved more than 36 billion gallons of water and more than \$267 million on consumers' water and sewer bills.
- EPA is actively working with a long list of partners to implement our Green Infrastructure Action Plan. The focus of this work is on green infrastructure approaches to managing wet weather. Among other activities, the Action Plan aims to better document costs, benefits and effectiveness of practices, incorporate green infrastructure into Long Term Control Plans for combined sewer overflows, and foster implementation in communities across the country.
- EPA continues an active schedule of outreach activities through various communications channels, including notably a series of webcasts on topics which range across the SI initiative.

### **Oversight of Delegation of States**

**Summary of Challenge:** *A critical management challenge for EPA is overseeing its delegation of programs to the states, mostly due to differences between state and federal policies,*

*interpretations, strategies, and priorities. While EPA has improved its oversight, particularly in priority setting and enforcement planning with states, the Agency needs accurate data and consistent policy interpretation to ensure effective oversight of all delegated regulatory and voluntary programs. OIG believes EPA must address the limitations in the availability, quality, and robustness of program implementation and effectiveness data.*

**Agency Response:** EPA acknowledges that state oversight is a very complex and changeable arena. Through federal statutes, implementing regulations, and program design, states are allowed flexibility in how they manage and implement environmental programs. Within EPA, national program managers are directly responsible for state oversight of individual programs. The Agency has committees, workgroups, special projects and initiatives to continuously improve Agency programs delegated to states. Below are a few examples of these programs and the efforts made to enhance oversight or correct issues with state delegation.

#### *Improving Oversight through the State Review Framework:*

As noted by OIG, the Enforcement Program's collaboration with the States to develop and implement the State Review Framework (SRF) is the cornerstone of efforts in that program to improve oversight. The SRF is a program management tool used to provide consistent assessment of EPA and State core Clean Water Act, Clean Air Act, and Resources Conservation and Recovery Act enforcement and compliance assurance programs. The Framework enables assessment of program effectiveness and identification of areas for management improvement that is consistent across all EPA Regions and States. The Framework was designed collaboratively by EPA and the Environmental Council of the States in 2004.

Based on the data and information from the SRF evaluations, on July 2, 2009, the Administrator asked the Office of Enforcement and Compliance Assurance, and Office of Water, in consultation with the States, to identify concrete steps that EPA can take to enhance public transparency about water enforcement programs, strengthen program performance, and transform the information systems that support both water quality and compliance programs.

A Clean Water Action Plan was subsequently developed, finalized and submitted to the Administrator on October 15, 2009. The Plan proposed three main actions to address water pollution challenges: (1) revamp the water enforcement program to focus on the pollution sources that present the greatest threat to water quality; (2) strengthen oversight of state permitting and enforcement programs to improve results and provide greater consistency; and (3) improve transparency and accountability, and invest in 21st century technology to provide more accurate and useful information to the public and increase pressure for better compliance performance. On June 22, 2010, OECA and OW jointly issued interim guidance to the regions and the states to immediately initiate and implement certain actions, as outlined in the Plan, to strengthen performance in the NPDES program.

#### *Strengthening State-EPA Implementation of Water Programs:*

Beginning in June 2008, ECOS Officers asked the Agency to provide more collaboration at the national level to meet the challenges of increasing workload and declining resources. In November of 2008 work with the States culminated in the creation of the Partnership Council of the Office of Water and States (PCOWS) to 'test' the early and ongoing engagement of the States in planning, budgeting, and implementation activities for the national water program. Since its creation, PCOWS has met four times to discuss strategic priorities with the States, to ensure that core and key program activities are given appropriate priority in budget decisions,

and to identify opportunities to maximize resources and reduce barriers in support of key joint priorities.

### *Improving State-EPA Collaborations through the NEPPS*

Through the National Environmental Performance Partnership System EPA and the states have developed a working relationship based on a clearer understanding of mutual issues and priorities and improved allocation of roles and responsibilities. Building on this successful platform, EPA and the states are working together to share the workload more efficiently and effectively to achieve environmental and public health outcomes. In FY2011, EPA and states will be collaborating on a focused effort to identify opportunities for enhanced work sharing and resource and workload flexibility in order to maintain the effectiveness of core programs, particularly in light of widespread state budget reductions due to the economic downturn.

### **Safe Reuse of Contaminated Sites**

**Summary of Challenge:** *EPA places increasing emphasis on the reuse of contaminated or once-contaminated properties and has a performance measure to define a population of contaminated sites that are ready for reuse. EPA faces “significant and increasing” challenges in this area, however, due to the common practice of not removing all sources of contamination from hazardous sites; a regulatory structure that places key responsibilities for monitoring and enforcing the long-term safety of contaminated sites on non-EPA parties that may lack necessary resources, information, and skill; changes in site risks as site conditions change over time; and existing weaknesses in EPA’s oversight of the long-term safety of sites. EPA will continually need to assess challenges it faces as well as challenges among the diverse group of non-EPA parties it must work with to ensure sites are safely reused. To address the challenges, these assessments should include consideration of new or expanded authorities and regulations, organization structures, and dedicated funding and resources.*

**Agency Response:** According to OIG, many contaminated sites, such as Superfund sites, must be monitored in the long term (i.e. 30 years or more) because known contamination is often not removed or remediated and controls that prevent prohibited activities at sites must be maintained and enforced. New controls or monitoring may be required if previously undetected or new contaminants emerge, which can happen directly as a result of a change in the site brought about by reuse. The lack of effective long-term monitoring and enforcement of reuse controls at contaminated sites can pose significant risks to human health and the environment.

For sites remediated under CERCLA, where waste is left in place above levels that allow for unlimited use and unrestricted access, EPA performs five year reviews (FYRs) to ensure that sites remain protective. One of the primary functions of the FYR is to determine whether new information about contaminants e.g., new toxicity data, or exposure pathways (e.g., a change in land use) at the site is available, that would compromise the protectiveness of the site. If such a change is found to compromise protectiveness, additional action will be taken to ensure that the public is protected. With the vapor intrusion pathway, many Regions did not wait for the FYR to consider the importance of this potential exposure pathway and prioritized sites for investigation before the next FYR. Superfund can take remedial action even at sites that have been deleted from the National Priorities List (NPL).

This process addresses the vast majority of “emerging” contaminant situations that we observe at NPL sites. Most so called emerging contaminant issues result from changes in toxicity values or changes in detection levels, both of which will be addressed in the FYR. In the rare situation where a site is not subject to FYR, EPA has information resources such as CERCLIS, a



searchable database for records of decision that can be used to identify sites where new contaminant information may lead to questions of long-term protectiveness. In these situations, EPA can relook at sites and determine whether additional action is warranted.

EPA is actively involved in working with stakeholders to promote site reuse, such as with our *Return to Use Initiative*. The Agency makes specific inquiry of the site managers and other stakeholders about new issues that might affect site risks if the site goes into reuse. Vapor intrusion is routinely examined as a potential concern at such sites. In addition, for sites further along in the cleanup process, we always review the most recent Five Year Reviews to help determine whether there are changed conditions or anything else that might affect site safety during reuse. Site safety never takes a back seat to promotion of site reuse.

EPA places a high priority on the implementation of appropriate institutional controls (ICs) in working with site stakeholders considering site reuse. For example, one of the objectives of our *Return to Use Initiative* is to evaluate and, if necessary, modify and implement requirements for ICs. Also, our guidance for issuing Ready for Reuse Determinations requires that ICs be in place. Finally, our Sitewide Ready for Anticipated Use GPRA performance measure counts only sites that have required ICs fully implemented.

EPA has also found that supporting and encouraging reuse can facilitate the successful implementation and enforcement of appropriate ICs. Specifically, EPA signs a State Superfund Contract (SSC) with the State, which outlines roles and responsibilities, including implementation and enforcement of ICs, roles and responsibilities for operations and maintenance of engineering controls. Under CERCLA, States are responsible for O&M activities, including oversight of work done by potentially responsible parties. Nevertheless, EPA is responsible for performing FYRs at sites where waste is left in place above levels that allow for unlimited use and unrestricted access, regardless of who is performing Operations and Maintenance (O&M). This periodic review is an excellent mechanism for providing long-term stewardship of sites. In the event of natural disasters (earthquakes, hurricanes), EPA routinely makes special reviews of sites to ensure that protectiveness has not been compromised.

Long-term stewardship considerations are important factors in developing enforcement agreements with responsible parties or with parties redeveloping sites. Long-term response costs are important considerations in determining the present worth value of remedial alternatives. We are working to ensure that the implementation costs associated with ICs is considered as part of the remedy selection process.

In addition, EPA is developing tools to make IC information more readily available to the public, including developers. Again, under CERCLA much of this responsibility resides with the States by law, but EPA works with the States so that they understand the long-term stewardship needs of the remedies chosen for sites.

The OIG overstates the level of threat associated with the site reuse issues and does not demonstrate that the process is not protective. In general, site reuse, limited recreation use along a bike path, was not inconsistent with the implemented site remediation. Recreational use is not unrestricted use and does not assume unlimited access. The “new” contamination that the OIG cites is noted in the previous FYR, so is not truly a new contaminant, nor was it found at a level that posed a threat to human health and the environment. In addition, institutional controls for the site worked to require a property owner who acquired a portion of the site to consult with EPA and obtain permission from the State before performing any construction on the site.

EPA cannot constantly monitor all reuse plans at all sites. EPA routinely reviews reuse plans brought to them by owners, developers, and other parties to ensure they are consistent with the remedy. The onus is on the developer to share plans with EPA. EPA does not control land use and EPA cannot dictate or monitor reuse plans. However, EPA can and does work with owners to ensure appropriate reuse when those plans are brought to the Agency's attention.

Generally, deleted sites with waste left in place are monitored through Five Year Reviews, which evaluate reuse activities on and near the site, as well as changed site conditions, to determine if the remedy remains protective. If no waste is left in place there should be no need to monitor site reuse.

A Ready for Reuse (RfR) Determination should not be issued for every site. The Agency has found that they appear to be most useful at sites where Superfund stigma is a significant barrier to site reuse. Stigma can affect the willingness of developers to work with a site, lenders to lend funds for site redevelopment, or prospective site users to feel comfortable visiting the site. The RfR Determination does describe appropriate use and limitations on site use; however, this information is also available and taken from other documents in the site repository.

OIG asserts that EPA's management of the long-term oversight and monitoring requirements for the safe reuse of contaminated sites has lagged behind the Agency's marketing of site reuse opportunities and its showcasing of successes. This gap promises to increase substantially as EPA continues to heavily promote the reuse of contaminated sites without investing in the tools needed to ensure the safe, long-term use of these sites. Promoting reuse sends a strong message to communities that EPA is a necessary participant in the dialogue. Seeing EPA as a collaborator rather than an impediment means that communities involve EPA in the reuse process, which allows EPA to communicate key messages about protectiveness. Once communities are ready to engage in a dialogue about using a site, EPA can offer a number of tools to ensure the reuse is appropriate and will enhance long-term protectiveness. Below are a few of the tools EPA actively promotes to ensure appropriate and safe reuse of sites:

- *Ready for Reuse Determinations* are environmental status reports that reiterate the limitations and opportunities associated with the reuse of sites. As noted in the OIG report, these are not mandatory for each site, but may be useful for sharing information about the site to a broader audience. EPA Headquarters consistently uses opportunities to educate remedial project managers about where and how it can be used, most recently at the 2010 National Association of Remedial Project Manager's conference.
- *Comfort and status letters* are issued by Regions to convey the status of the site remediation, describe site limitations and protectiveness issues and clarify liability issues.
- *Prospective purchaser inquiry calls* provide consistent and reliable information about limitations and opportunities at sites. Frequently, these calls result in prospective purchasers determining that sites are not appropriate. However, this outcome is not deemed a failure since it provided information that future users would need to understand before using a site.
- *EPA-funded reuse planning* offers communities and key stakeholders the opportunity to engage in an educated and realistic dialogue about the reuse of sites. EPA project managers serve as information resources during these exercises, where information about institutional controls and long-term stewardship are integrated into the reuse planning process.
- *Site reuse fact sheets* provide key information to parties interested in the reuse of sites. These single-page fact sheets highlight critical remedial components in place, long term maintenance activities, and institutional controls.

- *CERCLIS* provides detailed information about the institutional controls in place at sites, in addition to their eligibility to meet performance measures that affirm all remedial components and institutional controls are in place.

The Site Wide Ready for Anticipated Use (SWRAU) and Cross Program Revitalization Measure (CPRM) Ready for Anticipated Use (RAU) performance measures have explicit criteria that are used to evaluate whether a site is protective. These measures can communicate when EPA feels that all remedial components and institutional controls are in place such that the site can accommodate its reasonably anticipated future land use.

We believe that through these measures and tools we do an effective job of communicating site risks and remedies, and information site users need to know to be able to use the sites without compromising protectiveness. We will continue to explore new tools and approaches to sharing this information to ensure that our sites remain safe in their future uses.

### **Limited Capability to Respond to Cyber Security Attacks**

**Summary of Challenge:** *OIG believes that EPA has limited capacity to effectively respond to external network threats and needs to develop an Agency-wide action plan to investigate and combat current threats. Although EPA currently monitors network traffic to identify hostile traffic at its Internet choke points, the Agency remains challenged because it does not have the resources (in equipment or staff) to adequately assess attacks against its infrastructure. The Agency needs to aggressively enhance its cyber security capabilities and address security weaknesses to strengthen its ability to detect and respond to network attacks.*

**Agency Response:** EPA does not fully agree with OIG's assertion. However, it does acknowledge that, like other federal agencies, detecting, remediating or eradicating malicious software or Advanced Persistent Threats (APT) is a challenge for the Agency. The Agency has taken steps to increase security awareness and will continue to manage the threat through Agency-wide vigilance and improved detection capabilities.

Last year, the Agency affirmed a position to support continuous monitoring across the Information Technology (IT) infrastructure, and has made significant investments in technology to provide improve capability and increase visibility in the Agency's network. The Agency is implementing these new capabilities across the enterprise and is on-track to roll out this capability to ~24,000 Agency workstations by the end of 2010. Also, the Agency has heightened awareness and vigilance across the Agency's Information Security Officer (ISO) community - sponsoring training opportunities for Agency ISOs and incorporating an entire security track into the Agency's Skillport e-Learning portal.

In addition to in-house capabilities, EPA relies on relationships with other Federal Agencies (e.g., Department of Homeland Security, Federal Bureau of Investigation) and the vendor community to augment the Agency's cyber security capabilities - providing OEI information that can be used to detect and defend Agency IT resources. This community-based approach serves the entire Government well by providing EPA valuable information and intelligence that may not have been obtained otherwise. In addition to these relationships, EPA is leveraging existing contracts to augment existing contractor staff, and is pursuing additional contract support specifically focused on the detection of Advanced Persistent Threats (APT).

The Agency relies on a community of distributed Information Security Officials to effectively manage the security of IT resources. The Agency is working to ensure that the Information Security Officials are properly recruited, trained and equipped to meet current and future

security requirements. The security of Agency resources is not tied to any single tool, but rather it is tied to a knowledgeable, trained community of security professionals who can effectively utilize available resources to protect the integrity of Agency IT assets. EPA will develop Plans of Actions and Milestones (POAM) to specifically address the actions required to improve how the Agency can better recruit, develop and train the Information Security Officials throughout the Agency.

### **Reducing Domestic Greenhouse Gas Emissions:**

**Summary of Challenge:** *In April 2007, the U.S. Supreme Court ruled in the Massachusetts v. EPA case that greenhouse gases (GHGs) are air pollutants under the Clean Air Act. In December 2009, the Agency issued an endangerment finding for six GHGs. According to OIG, although EPA is addressing these findings through regulations, voluntary programs, and research and development, the Agency faces significant challenges that are beyond its control, including political and private opposition, unverifiable data, and reliance on multiagency research. For example, EPA is developing regulations to control GHG emissions without statutory language that specifically establishes a GHG program. Also, EPA is relying on data from voluntary programs that may be unreliable and unverifiable, and on multiagency research for which it has limited control over the content, conduct, and timing of the research.*

**Agency Response:** EPA is addressing these findings through regulations, voluntary programs, and research and development. EPA agrees that it faces significant challenges that are beyond its control, including political and private opposition, unverifiable data, and reliance on multiagency research. Another aspect of this management challenge may be a potential funding challenge for the multitude of mobile source areas needing to be addressed. The Agency's Office of Air and Radiation leads the development of multiple mobile source programs to address GHG emissions from light-duty passenger vehicles, heavy-duty vehicles, ocean-going vessels, aircraft and other non-road engines. This work involves extensive Agency efforts including coordination with other federal agencies and international organizations.

### **EPA's Framework for Assessing and Managing Chemical Risks**

**Summary of Challenge:** *OIG and GAO believe that EPA's effectiveness in assessing and managing chemical risks is hampered in part by limitations on the Agency's authority to regulate chemicals under Toxic Substances Control Act (TSCA). In January 2009, GAO included EPA's process for assessing and controlling toxic chemicals on its high-risk list. GAO notes that EPA's ability to protect public health and the environment depends on credible and timely assessment of the risks posed by toxic chemicals. EPA's Integrated Risk Information System (IRIS), which contains assessments of more than 500 toxic chemicals, is at a serious risk of becoming obsolete because EPA has been unable to keep its existing assessments current or to complete assessments of important chemicals of concerns. OIG reports that EPA's New Chemicals Program is limited in assessment, oversight, and transparency and that performance measures for managing risks from new chemicals neither accurately reflect program performance nor assure compliance.*

**Agency Response:** GAO identified "Transforming EPA's Processes for Assessing and Controlling Chemicals" as a high-risk area in its January 2009 High-Risk Series. EPA acknowledges "Streamlining Chemical Assessments Under IRIS" an Agency-level weakness under the Federal Financial Managers' Integrity Act in October 2009. In May 2010, OIG identified "EPA's Framework for Assessing and Managing Chemical Risks as a management challenge.

In May 2009, the Agency released a new Integrated Risk Information System (IRIS) process that addresses program management, transparency, and timeliness. Also, the Agency implemented steps to reduce the IRIS backlog by focusing resources on those assessments that were farther along in the process. The Agency continues to focus on this group of 50 assessments. Of the 50 assessments that were given high priority, 10 have been completed, 25 are in the external peer review step or the final agency and interagency review step, four are in interagency science consultation, two are in agency review, and nine are in draft development. In FY 2010, EPA released five major assessments for external peer review and public comment. These assessments are being reviewed by the NAS (formaldehyde) or the EPA's SAB. The Agency is committed to continuing to move these assessments through the IRIS process to completion. Thus, the IRIS program has had increased success in moving assessments through the process. When three major assessments (formaldehyde, trichloroethylene, and dioxin) that require a large commitment of FTE are completed, EPA expects to be able to increase the total number of standard assessments that it can perform.

To address the issue of assessments on the database that need to be updated, the Agency established the IRIS Update Project in 2010. This project identifies toxicity values on IRIS that are more than ten years old and screens them for the availability of new data or new assessment methods that could change a toxicity value of a cancer descriptor. Toxicity values will be updated in batches of 8-12 assessments and reviewed by a Federal Standing Science Committee and a Standing External Peer Review Panel of EPA's SAB. The 2009/2010 agenda for the IRIS Update Project was announced in a Federal Register Notice of October 21, 2009 (74 FR 54040).

In FY 2010, to ensure that resources focus on the greatest program needs, the Agency expanded the role of its program and regional offices in nominating and prioritizing chemicals for IRIS assessment. The Agency met extensively with internal program and regional offices to better understand their assessment needs and gather input on priorities for the current IRIS agenda. These priorities are being used to allocate resources among the assessments and determine which assessments will be done first.

Additionally, the Agency is working with the California Environmental Protection Agency's (CalEPA) Office of Environmental Health Hazard Assessment and the Agency for Toxic Substances and Disease registry under separate Memoranda of Understanding. These efforts to pool resources and share information will eventually increase the IRIS program's efficiency and output of assessments.

The Agency has started an IRIS Logistics team that coordinates IRIS-related administrative support. The logistics team is a matrix managed team that includes administrative personnel who work on IRIS-related activities. Many of these activities were performed by individual chemical managers and have now been centralized in the logistics team, increasing efficiency and providing more time for the chemical managers to focus on scientific work.

OIG asserts that 14 years after the passage of the Food Quality Protection Act and amendments to the SDWA, EPA has yet to regulate the endocrine-disrupting effects of any chemicals. The Agency established a multi-stakeholder federal advisory committee, the Endocrine Disruptor Screening and Testing Advisory Committee (EDSTAC) under the Federal Advisory Committee Act (FACA), 5 U.S.C. App. 2, Section 9(c). This committee was asked to provide advice to the Agency on how to design a screening and testing program for endocrine disrupting chemicals. In 1998, the EDSTAC published their final report, which included five fundamental recommendations:

- 1) Expand the evaluation of additional modes of action beyond estrogen disruption to include test systems that detect androgen and thyroid disruption directly and via the hypothalamic-pituitary-gonadal (HPG) and hypothalamic-pituitary-thyroidal (HPT) axes.
- 2) Expand the target population beyond humans to include animal wildlife
- 3) Expand screening beyond pesticides (approximately 2000 chemicals) to include all chemicals to which humans and the environment are exposed (estimated at 87,000 chemicals).
- 4) Incorporate a two-tiered approach: Tier 1 would identify the potential of chemicals to interact with the estrogen, androgen and thyroid hormone systems. Tier 2 would identify the potential hazard and establish dose-response relationships.
- 5) Develop a priority setting data base that would permit the selection of chemicals for screening on the basis of both exposure and potential hazard.

EPA has had three major tasks to complete before it could issue test orders to pesticide registrants and chemical manufacturers to commence testing. Validation to establish the relevance and reliability of the assays was the largest of these tasks. The EPA has followed a five-stage assay validation process that included: 1) Test development, 2) Pre-validation testing, 3) Inter-laboratory validation studies, 4) Peer review and 5) regulatory acceptance as described at the EDSP website: (<http://www.epa.gov/scipoly/oscpendo/pubs/assayvalidation/status.htm>). Each of the first three of these stages typically took a year or more to complete and had to be completed sequentially as the knowledge developed in one stage was essential to the conduct of the next stage. Peer review of these assays was completed in mid-2008.

A second task was the prioritization of chemicals to be screened. EPA planned on using the high throughput *in vitro* assays used by the pharmaceutical industry as a means to rapidly identify those chemicals that may interact with the endocrine system. In a demonstration with 65 chemicals conducted in 1998-99, the high throughput screens failed to correctly identify most of the chemicals known to interact with hormone receptors; thus, EPA was forced to adopt a different approach for selecting chemicals. A pilot demonstration of the utility of existing information led EPA to the conclusion that this was also not a cost-effective way to prioritize and select chemicals for screening. In 2005, EPA finally proposed and took comment on using exposure information only to identify chemicals, primarily pesticides, in the first round of Tier 1 screening. This approach led to the proposal of the first list of chemicals for screening in 2007.

The third task was to develop the policies and procedures which would apply to test order recipients. These include the procedures for responding to test orders, minimizing duplicative testing, providing for data compensation, and protecting sensitive information. In addition, EPA developed cost estimates for conducting the Tier 1 battery which formed the basis of an Information Collection Request (ICR) submitted to OMB in 2008. The ICR was approved in the fall of 2009 and the first test orders were issued in October 2009.

Despite the fact that the EDSP has only begun to screen chemicals, EPA has been obtaining useful information regarding endocrine-related health effects, as documented by annual reports to Congress. Additionally, the Agency plans on implementing the EDSP for pesticides on a routine basis by first issuing orders for pesticides entering Registration Review. The Registration Review program requires all pesticides currently registered to be reevaluated to ensure they meet current scientific and regulatory standards.

While the complexity of the scientific and regulatory process for implementing the EDSP warrant the designation of the EDSP as a “management challenge,” the progress made this year in issuing test orders and fully implementing the EDSP demonstrates that the EDSP should not be regarded as a material weakness.

GAO has stated that EPA’s framework for assessing and managing chemical risks has not yet achieved the goal of protecting human health and the environment and EPA’s effectiveness in assessing and managing chemical risks is hampered in part by limitations on the Agency’s authority to regulate chemicals under TSCA. In a similar vein, OIG believes EPA needs to transform its processes for assessing and controlling toxic chemicals.

EPA has announced its [principles to strengthen US chemical management laws](#), and initiated a comprehensive effort to enhance the Agency’s current chemicals management program within the limits of existing authorities. This effort includes:

- New Regulatory Risk Management Actions;
- Development of Chemical Action Plans for Chemicals of Concern;
- Obtaining Information Needed to Understand Chemical Risks; and,
- Increasing Transparency and Public Access to Information About Chemicals.

#### New Regulatory Risk Management Actions

The Agency is taking risk management actions to reduce exposure to and risks from a number of chemicals of concern, including lead, mercury, formaldehyde, polychlorinated biphenyls (PCBs), glymes, and certain carbon nanotubes. These actions include:

- Lead - Strengthening the lead paint work practice standards for renovation and remodeling, issued in 2008, to expand coverage and eliminate the “opt out” provisions, require clearance testing after renovation, address lead-safe work practices for public and commercial buildings, and initiate rulemaking under section 6 of TSCA to ban the use of lead weights in tires.
- Mercury - Initiating rulemaking under section 6 of TSCA to phase out or ban the use of mercury in a range of switches, relays, measuring devices, and other products.
- Formaldehyde - Initiating rulemakings to implement recently enacted Title VI of TSCA (Formaldehyde Standards for Composite Wood Products Act) governing formaldehyde emissions from pressed wood products.
- PCBs - Initiating rulemaking under section 6 of TSCA to re-evaluate the TSCA PCB use and distribution in commerce regulations.
- Glymes - Initiating rulemaking under section 5(a)(2) of TSCA to require prior notification to the Agency of any new consumer use of monoglyme (CASRN 110-71-4), diglyme (CASRN 111-96-6), and ethylglyme (CASRN 629-14-1).
- Nano Materials - Carbon Nano tubes -- Initiating rulemaking under section 5(a)(2) of TSCA to require protective measures to limit exposure or otherwise mitigate the potential unreasonable risk presented by two carbon nanotube chemical structures (P-08-177 and P-08-328).

#### Development of Chemical Action Plans for Chemicals of Concern

EPA is developing chemical action plans which guide the Agency’s risk management efforts on chemicals of concern. These action plans are based on EPA’s review of available hazard,

exposure, and use information, and outline the risks that each chemical may present and what specific actions the Agency will take to address those concerns.

EPA intends to utilize the full array of regulatory tools under TSCA and other statutes to address risks, including authority to label, restrict, or ban chemicals under Sections 5 and 6 of TSCA, authority to compile a list of chemicals of concern under Section 5(b)(4) of TSCA, authority under EPCRA to require reporting under the Toxics Release Inventory, and authorities exercised by other Agencies such as CPSC, FDA, etc.

EPA has either developed or is in the process of developing action plans on the following chemicals and chemical categories:

- Bisphenol A (BPA);
- Long-chain perfluorinated chemicals (PFCs) ;
- Penta, octa, and decabromodiphenyl ethers (PBDEs) in products;
- Phthalates;
- Short-chain chlorinated paraffins;
- Benzidine dyes;
- Hexabromocyclododecane (HBCD);
- Nonylphenol and nonylphenol ethoxylates (NP/NPE); and,

#### Obtaining Information Needed to Understand Chemical Risks

EPA is moving quickly to ensure that the Agency has the hazard, use, and exposure data critical to prioritizing chemicals for review and making risk management decisions. These activities include a number of new actions under sections 4, 5, and 8 of TSCA to:

- Require that companies submit information to fill the remaining gaps in basic health and safety data on High Production Volume Chemicals.
- Make the reporting of chemical use information more transparent, more current, more useful, and more usable by the public
- Require additional reporting on nanoscale chemical substances, and consider how to address new and existing nanoscale substances under TSCA.

Specific actions in each of these areas are described below.

#### *High Production Volume (HPV) Chemicals Hazard Data*

The HPV Challenge Program challenged companies to submit basic screening level hazard data on HPV chemicals. Some HPV chemicals did not have sponsors for submitting health and safety data under the HPV Challenge program, and some of the sponsoring companies failed to submit all the data they had committed to provide on their chemicals. EPA plans to fill the current gaps in health and safety data on HPV chemicals by:

- Publishing test rules under section 4 of TSCA on unsponsored chemicals and to fill current gaps in data on sponsored but unfulfilled chemicals.
- Continuing to develop and post hazard characterizations. EPA posted new hazard characterizations on 100 HPV chemicals in September 2009.
- Initiating action to require notification and possible follow-up testing that would be triggered under significant new use rules under [section 5\(a\)\(2\)](#) on additional HPV chemicals.



### *Inventory Update Reporting (IUR)*

The IUR requires companies to report production volume, processing, and use information on chemicals. The proposed modifications to the IUR rule under section 8 of TSCA offer a range of options to make the reporting of chemical use information more transparent, more current, more useful, and more useable by the public.


### *Nanoscale Chemical Substances*

Many nanoscale chemical materials are regarded as "chemical substances" under TSCA and EPA is reviewing how to address them under TSCA. In January 2009, EPA released an interim report on the Nanoscale Materials Stewardship Program (NMSP), noting that a number of the environmental health and safety data gaps the Agency hoped to fill through the NMSP still exist. To address those gaps, EPA is developing:

- A proposed rule under section 8(a) of TSCA to require companies to report data on existing uses, production volumes, specific physical properties, chemical and structural characteristics, methods of manufacture and processing, exposure and release information, and available health and safety data on nanoscale materials.
- A proposed rule under section 4 of TSCA to require companies to test several manufactured nanomaterials for health and environmental effects.

### Increasing Transparency and Public Access to Information About Chemicals

To fulfill Administrator Lisa P. Jackson's commitment to increase transparency and public access to information on chemicals, EPA has been taking a series of aggressive actions, including adopting a more stringent review of confidentiality claims by industry and making the public portion of the TSCA inventory available free of charge on the agency's Web site. EPA intends to continue to take additional actions to further increase chemical information available to the public. EPA is committing in its Strategic Plan make all TSCA health and safety information for chemicals in commerce available to the public to the extent allowed by law, including newly submitted information as well as previously submitted information.



## IMPROPER PAYMENTS INFORMATION ACT OF 2002 REPORTING DETAILS

As required by the Improper Payments Information Act (IPIA) of 2002, EPA reviewed its programs and activities for improper payments. EPA is committed to improving program performance by reviewing programs that are susceptible to improper payments. The IPIA defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. Improper payment reviews are conducted in accordance with the OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments*.

### Risk Assessments

EPA's programs continue to demonstrate that they are not susceptible to "significant erroneous payments," which is defined by OMB Circular A-123, Appendix C, as payments exceeding \$10 million and 2.5 percent of program payments. EPA reviews and reports on the Clean Water and Drinking Water State Revolving Funds (SRFs), since they are former Section 57 programs for which OMB has requested information. EPA currently has an SRF improper payment target of 0.30 percent and has been consistent in meeting this goal. Improper payment rates for the SRFs are as follows:

Program: Clean Water and Drinking Water SRFs			
Fiscal Year	Outlays	Erroneous Payments	Error Rate
2006	\$2.3 billion	\$ 3.5 million	0.15 percent
2007	\$2.3 billion	\$1.64 million	0.07 percent
2008	\$2.1 billion	\$8.3 million	0.39 percent
2009*	\$1.9 billion	\$1.1 million	0.06 percent*
2010	\$4.8 billion	\$1.8 million	0.04 percent

\* The FY 2009 figures have been revised from \$0.509 million in erroneous payments and a 0.027% error rate, to \$1.1 million in erroneous payments and a 0.06% error rate. In FY 2010, an external auditor conducted an A-123 review of EPA's FY 2009 improper payments submission. During its review, the auditor identified a \$600,000 overpayment by the state of Michigan. This overpayment had been quickly detected by EPA and was corrected by the state, but due to an oversight, it went unreported in EPA's 2009 IPIA submission.

### Statistical Sampling Process

The American Recovery and Reinvestment Act of 2009 (ARRA) provided the SRFs with an additional \$6 billion of spending authority. As a result, for the FY 2010 reporting cycle, EPA broadened the scope of its sampling process to include a review of state expenditures of ARRA funds. The sampling of ARRA funds involves the testing of four cash draws per state – twice per year. Similarly, the sampling of regularly appropriated funds involves the testing of at least two cash draws per state per year. A cash draw is a disbursement from Treasury for the payment of state grants. Each disbursement may be based on a single invoice or batch of invoices, which are reviewed for improper payments. Of the total \$4.8 billion in SRF expenditures in FY 2010, approximately \$3.3 billion consisted of ARRA funds. And of the \$1.8 million of improper payments identified, 47 percent were ARRA-related, and 53 percent were non-ARRA-related. In summary, the SRF programs remain well below the OMB threshold for significant erroneous payments.

## Corrective Action Plans

In an effort to meet OMB's objective on improper payments, EPA continues to conduct internal control reviews on grants, contracts, and travel/purchase cards, with the objective being to identify and measure high-risk areas. Updated information on each of the areas follows.

### Grants

EPA continues to monitor grantee awards to ensure payment accuracy and recover improper payments. Since FY 2006, the Agency has tracked erroneous payments by grant recipient in the Grantee Compliance Database.

In FY 2010, EPA conducted a review and statistical sampling of 60 nonprofit grantee recipients. These reviews were based on active grants during calendar year (CY) 2009. Of these 60 grantees, 17 were identified as having potential erroneous payments, and six had actual erroneous payments upon financial resolution. Results from the past five years are provided in the table below. The table also *updates* information on results from the appeals process for these years.

Nonprofit Grantees Review/Audit Results	CY 2005 Review	CY 2006 Review	CY 2007 Review	CY 2008 Review	CY 2009 Review
Total dollars drawn	\$20,222,035	\$29,373,772	\$22,544,462	\$120,209,284	\$10,258,129
All potential erroneous payments cited	\$1,016,967	\$562,394	\$384,352	\$577,611	\$361,590
Questioned costs determined allowable	\$329,378	\$523,227	\$370,919**	\$471,343	\$281,343
Actual erroneous payments (unallowable costs)	\$687,589*	\$39,167	\$13,433	\$106,268	\$80,247
Costs that have been recovered	\$57,791*	\$14,185	\$13,433	\$54,459	\$0
Costs still in recipient appeal process	\$0	\$0	\$0	\$0	\$0
Percent of erroneous payments	3.400%	0.133%	0.059%	0.088%	0.782%

\* Of the \$687,589 in final erroneous payments identified for CY 2005, \$629,798 (or 91.6 percent) was associated with a single earmark award. But for this one earmark, erroneous payments for sampled grants during CY 2005 were \$57,791, equal to 0.2857 percent of total disbursements for sampled grants and well below EPA's target metric of 1 percent of total disbursements. In response to the Agency's findings, the earmark grant has been terminated and the recipient suspended and debarred, as shown on the U.S. General Services Administration's (GSA's) Excluded Parties List System. The recipient no longer exists thus funds cannot be recovered.

\*\* Corrects a transposed digit. This amount should be \$370,919 instead of \$307,919.

### Contracts

EPA uses an internal process to detect and recover improper payments. This internal review captures the number of improper payments per month and provides information on each improper payment, including its cause and recovery status. For FY 2010, EPA did not conduct

an external recovery audit due to the low error rate demonstrated in prior years. Improper payment data for FY 2006 through FY 2010 are summarized below.

<b>Results of EPA's Improper Contract Payments Report</b>			
<b>Fiscal Year</b>	<b>Number of Erroneous Payments</b>	<b>Erroneous Payments (Dollars in Thousands)</b>	<b>Error Rate for Dollars</b>
2006	25 (of 28,098)	\$406.5	0.03%
2007	14 (of 29,828)	\$65.3	0.01%
2008	12 (of 32,043)	\$324.0	0.03%
2009	31 (of 35,929)	\$716.4	0.05%
2010	35 (of 39,060)	\$882.6	0.08%

### **Commodity Payments**

EPA continues to take appropriate action as needed to reduce or eliminate any improper payments. The improper commodity payments are attributed to product returns not deducted, duplicate payments due to keypunch errors and vendor number errors, cash discounts not taken, and state and local tax exemptions not taken.

The Agency will continue using the monthly Improper Commodities Payment Report as the tool for monitoring these payments; improper payment data for FY 2006 through FY 2010 is summarized in the table below.

<b>Results of EPA's Improper Commodity Payments Report</b>			
<b>Fiscal Year</b>	<b>Number of Erroneous Payments</b>	<b>Erroneous Payments (Dollars in Thousands)</b>	<b>Error Rate for Dollars</b>
2006	102 (of 50,665)	\$695.5	0.23%
2007	63 (of 45,859)	\$176.5	0.06%
2008	48 (of 43,629)	\$215.4	0.08%
2009	32 (of 41,585)	\$193.7	0.07%
2010	34 (of 39,571)	\$166.3	0.05%

### **Travel Card/Purchase Card**

The Agency continues to monitor travel and purchase charge card transactions in accordance with its policies and procedures. In addition, EPA monitors the issuance of purchase cards to ensure that spending limits and span of control are kept to a minimum. The Agency continues its monitoring program, which requires each Senior Resource Official to perform biennial reviews of the purchases made within their program offices. These reviews ensure the integrity of the purchase card program. EPA continues to use several additional controls:

- Daily e-mail notification of the card holder's approving official for each purchase.
- Routine reviews of various transactions.
- Review Agency Atypical Report, which identifies airline ticket purchase without authorizations.

## Improper Payment (IP) Reduction Outlook FY 2006–FY 2010

(Dollars in Millions)

Program	FY 2006 Outlays	FY 2006 IP%	FY 2006 IP \$	FY 2007 Outlays	FY 2007 IP%	FY 2007 IP \$	FY 2008 Outlays	FY 2008 IP%	FY 2008 IP \$	FY 2009 Outlays	FY 2009 IP%	FY 2009 IP \$	FY 2010 Outlays	FY 2010 IP%	FY 2010 IP \$	FY 2011 Outlays	FY 2011 IP%
Clean Water and Drinking Water SRFs	\$2,303	0.40 target 0.15 actual	\$3.5	\$2,344	0.35 target 0.07 actual	\$1.60	\$2,143	0.30 target 0.39 actual	\$8.3	\$1,884	0.30 target 0.06* actual	\$1.1*	\$4,758	0.30 target 0.04 actual	\$1.8	[\$3,981] (est.)	0.30 target [0.30] (est.)

\* The FY 2009 figures have been revised, from \$0.509 million in erroneous payments and a 0.027% error rate, to \$1.1 million in erroneous payments and a 0.06% error rate.

## Recovery of Improper Payments FY 2004–FY 2010

Agency Source	Amount Identified (CY)	Amount Recovered (CY)	Amount Identified (PY)	Amount Recovered (PY)	Cumulative Amount Identified (CY+PYs)	Cumulative Amount Recovered (CY+PYs)
Post-Payment Reviews (Commodities)	\$15,600	\$2,900	\$31,100	\$31,100	\$475,500	\$457,500
Post-Payment Reviews (Contracts)	\$612,000	\$612,000	\$127,900	\$127,900	\$1,075,300	\$1,075,300
Self-Reported Overpayments (Contracts)	\$99,600	\$99,600	\$223,800	\$223,800	\$696,900	\$696,900
Self-Reported Overpayments (Commodities)	\$150,600	\$133,300	\$162,500	\$162,500	\$1,381,200	\$1,365,200
Post-Payment Reviews (Grants)	\$80,200	\$0	\$106,300	\$54,500	\$945,500	\$158,600

## Ensuring Management Accountability

As previously outlined, the Agency continues to strengthen already strong internal controls in key payment processes. Information on erroneous payments from reviews and audits of the two SRFs, our largest grant programs, is reported semi-annually to management in both the Office of Water and the OCFO. In all cases, action is taken with the appropriate officials to ensure that improper payments are recovered and to avoid future improper payments.

## Information Systems and Infrastructure

The Agency's information systems are sufficient to monitor the reduction of improper payments to targeted levels.

## Statutory and Regulatory Barriers

None.

## **Conclusions**

The Agency continues to demonstrate a low level of risk for the SRF programs through random statistical sampling of direct payments and targeted state reviews. In addition, EPA's primary funding streams – grants and contracts – exhibit low risk of improper payments.

For FY 2011, EPA commits to the following activities:

- Increase the sampling of regularly appropriated SRF funds to four cash draws per state per year.
- Conduct sampling of state disbursements and report on FY 2011 SRF erroneous payments.



## *EPA's FY 2010 Agency Financial Report*

### **Appendix A: Public Access**

This document is one chapter from the *Fiscal Year 2010 Agency Financial Report*, U.S. Environmental Protection Agency (EPA-190-R-10-003), published on November 15, 2010. This document is available at: [www.epa.gov/ocfo/financialperformancereports.htm](http://www.epa.gov/ocfo/financialperformancereports.htm). Printed copies of EPA's *FY 2010 Agency Financial Report* are available from EPA's National Service Center for Environmental Publications at 1-800-490-9198 or by e-mail at [nscep@bps-lmit.com](mailto:nscep@bps-lmit.com).

EPA invites the public to access its newly redesigned website at [www.epa.gov](http://www.epa.gov) to obtain the latest environmental news, browse EPA topics, learn about environmental conditions in their communities, obtain information on interest groups, research laws and regulations, search specific program areas, or access EPA's historical database.

**American Recovery and Reinvestment Act of 2009:** [www.epa.gov/recovery](http://www.epa.gov/recovery)

**EPA newsroom:** [www.epa.gov/newsroom](http://www.epa.gov/newsroom)

- News releases: [www.epa.gov/newsroom/newsreleases.htm](http://www.epa.gov/newsroom/newsreleases.htm)
- Regional newsrooms: [www.epa.gov/newsroom/#regions](http://www.epa.gov/newsroom/#regions)

**Laws, regulations, guidance, and dockets:** [www.epa.gov/lawsregs](http://www.epa.gov/lawsregs)

- Major environmental laws: [www.epa.gov/lawsregs/laws/index.html](http://www.epa.gov/lawsregs/laws/index.html)
- EPA's Federal Register Web site: [www.epa.gov/fedrgstr](http://www.epa.gov/fedrgstr)

**Where you live:** [www.epa.gov/epahome/whereyoulive.htm](http://www.epa.gov/epahome/whereyoulive.htm)

- Search your community: [www.epa.gov/epahome/commsearch.htm](http://www.epa.gov/epahome/commsearch.htm)
- EPA regional offices: <http://www.epa.gov/epahome/regions.htm>

**Information sources:** [www.epa.gov/epahome/resource.htm](http://www.epa.gov/epahome/resource.htm)

- Hotlines and clearinghouses: [www.epa.gov/epahome/hotline.htm](http://www.epa.gov/epahome/hotline.htm)
- Publications: [www.epa.gov/epahome/publications.htm](http://www.epa.gov/epahome/publications.htm)

**Education resources:** [www.epa.gov/epahome/students.htm](http://www.epa.gov/epahome/students.htm)

- Teaching Center: [www.epa.gov/teachers](http://www.epa.gov/teachers)
- Office of Environmental Education: [www.epa.gov/enviroed](http://www.epa.gov/enviroed)

**About EPA:** [www.epa.gov/epahome/aboutepa.htm](http://www.epa.gov/epahome/aboutepa.htm)

- EPA organizational structure: [www.epa.gov/epahome/organization.htm](http://www.epa.gov/epahome/organization.htm)

**EPA programs:** [www.epa.gov/epahome/abcpgram.htm](http://www.epa.gov/epahome/abcpgram.htm)

- Programs with a geographic focus: [www.epa.gov/epahome/places.htm](http://www.epa.gov/epahome/places.htm)

**Partnerships:** [www.epa.gov/partners](http://www.epa.gov/partners)

- Central data exchange: [www.epa.gov/cdx](http://www.epa.gov/cdx)
- Business Guide to Climate Change Partnerships:  
[www.epa.gov/partners/Biz\\_guide\\_to\\_epa\\_climate\\_partnerships.pdf](http://www.epa.gov/partners/Biz_guide_to_epa_climate_partnerships.pdf)

**EPA for business and nonprofits:** [www.epa.gov/epahome/business.htm](http://www.epa.gov/epahome/business.htm)

- Small business gateway: [www.epa.gov/smallbusiness](http://www.epa.gov/smallbusiness)
- Grants, fellowships, and environmental financing: [www.epa.gov/epahome/grants.htm](http://www.epa.gov/epahome/grants.htm)

**Budget and performance:** [www.epa.gov/performance/](http://www.epa.gov/performance/)

**Careers:** [www.epa.gov/careers](http://www.epa.gov/careers)

- EZ Hire: [www.epa.gov/ezhire](http://www.epa.gov/ezhire)
- Student opportunities: [www.epa.gov/careers/stuopp.html](http://www.epa.gov/careers/stuopp.html)

**EPA en Español:** [www.epa.gov/espanol](http://www.epa.gov/espanol)

**EPA 中文: 繁體版:** [www.epa.gov/chinese](http://www.epa.gov/chinese)

**EPA 中文: 简体版:** [www.epa.gov/chinese/simple/](http://www.epa.gov/chinese/simple/)

**EPA tiếng Việt:** [www.epa.gov/vietnamese](http://www.epa.gov/vietnamese)

**EPA 한국어:** [www.epa.gov/korean](http://www.epa.gov/korean)

**Environmental Kids Club:** [www.epa.gov/kids](http://www.epa.gov/kids)





## *EPA's FY 2010 Agency Financial Report*

### **Appendix B: Acronyms and Abbreviations**

This document is one chapter from the *Fiscal Year 2010 Agency Financial Report*, U.S. Environmental Protection Agency (EPA-190-R-10-003), published on November 15, 2010. This document is available at: [www.epa.gov/ocfo/financialperformancereports.htm](http://www.epa.gov/ocfo/financialperformancereports.htm). Printed copies of EPA's *FY 2010 Agency Financial Report* are available from EPA's National Service Center for Environmental Publications at 1-800-490-9198 or by e-mail at [nscep@bps-lmit.com](mailto:nscep@bps-lmit.com).

ACS	Annual Commitment System
AEGL	Acute Exposure Guideline Levels
AFO	Animal Feeding Operation
AFR	Agency Financial Report
AOC	Area of Concern
APG	Annual Performance Goal
APR	Annual Performance Report
AQCD	Air Quality Criteria Document
AQI	Air Quality Index
AQS	Air Quality System
ARRA	American Recovery and Reinvestment Act
ASSERT	Automated System Security Evaluation and Remediation Tracking
BMP	Best Management Practice
BOSC	Board of Scientific Counselors
BTU	British Thermal Unit
CAMR	Clean Air Mercury Rule
CARE	Community Action for a Renewed Environment
CASTNet	Clean Air Status and Trends Network
CCMPs	Comprehensive Conservation and Management Plans
CCSP	Climate Change Science Program
CDC	Centers for Disease Control and Prevention
CDX	Central Data Exchange
CEMS	Continuous Emission Monitoring System
CFC	Chlorofluorocarbon
CFO	Chief Financial Officer
CO	Carbon Monoxide
CO <sub>2</sub>	Carbon Dioxide
CRT	Cathode Ray Tube
CWA	Clean Water Act
CY	Calendar Year
DCAA	Defense Contract Audit Agency
DDT	Dichloro-Diphenyl-Trichloroethane
DfE	Design for the Environment
DHS	U.S. Department of Homeland Security
DOE	U.S. Department of Energy
DOT	U.S. Department of Transportation
DST	Decision Support Tool
DWSRF	Drinking Water State Revolving Fund
ECOS	Environmental Council of the States
EDSP	Endocrine Disruptor Screening Program
EHPV	Extended High Production Volume
EIA	Energy Information Agency
EMP	Environmental Management Practice
EMS-HAP	Emissions Modeling System for Hazardous Air Pollutants
EPA	U.S. Environmental Protection Agency
EPEAT	Electronics Products Environmental Assessment Tool
ET	Evapotranspiration
ETS	Emissions Tracking System
ETV	Environmental Technology Verification Program
FEMA	Federal Emergency Management Agency
FFMIA	Federal Financial Management Improvement Act of 1996

FFRRO	Federal Facilities Restoration and Reuse Office
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMSD	Facilities Management and Services Division
FQPA	Food Quality Protection Act
FTE	Full Time Equivalent
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GAP	General Assistance Program
GHG	Greenhouse Gas
GIS	Geographical Information System
GLRI	Great Lakes Restoration Initiative
GM	Genetically Modified
GMRA	Government Management Reform Act
GPRA	Government Performance and Results Act of 1993
GSA	U.S. General Services Administration
GSN	Green Suppliers Network
GWP	Global Warming Potential
H2E	Hospitals for Healthy Environment
HABs	Harmful Algal Blooms
HCFC	Hydrochlorofluorocarbon
HFC	Hydrofluorocarbon
HPV	High Production Volume
HPVIS	High Production Volume Information System
HUC	Hydrologic Unit Code
IAQ	Indoor Air Quality
IAQTfS	Indoor Air Quality Tools for Schools
ICIS	Integrated Compliance Information System
IPIA	Improper Payments Information Act
IPT	Integrated Project Team
IRIS	Integrated Risk Information System
ISSC	Interstate Shellfish Sanitation Conference
LoB	Line of Business
LUST	Leaking Underground Storage Tank
MACT	Maximum Achievable Control Technology
MCO	Mission Critical Occupation
MD&A	Management's Discussion and Analysis
MIA	Management Integrity Advisor
MMBTU	Million Metric British Thermal Unit
MMTCE	Million Metric Tons of Carbon Equivalent
MNA	Monitored Natural Attenuation
MSW	Municipal Solid Waste
NAAQS	National Ambient Air Quality Standards
NAPL	Non-Aqueous Phase Liquids
NAS	National Academy of Sciences
NATA	National-Scale Air Toxics Assessment
NEI	National Emissions Inventory
NEP	National Estuary Program
NESHAP	National Emission Standard for Hazardous Air Pollutants

NO <sub>2</sub>	Nitrogen Dioxide
NOAA	National Oceanic and Atmospheric Administration
Non Road CI	Non Road Compression Ignition
NO <sub>x</sub>	Nitrogen Oxides
NPAP	National Performance Audit Program
NPDES	National Pollutant Discharge Elimination System
NPEP	National Partnership for Environmental Priorities
NPL	National Priorities List
NRC	Nuclear Regulatory Commission
NSR	New Source Review
NTI	National Toxics Inventory
NWI	National Wetlands Inventory
OARM	Office of Administration and Resources Management
OCFO	Office of the Chief Financial Officer
ODS	Ozone-Depleting Substance
OECD	Organization for Economic Cooperation and Development
OEI	Office of Environmental Information
OFM	Office of Financial Management
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPAA	Office of Planning, Analysis and Accountability
ORD	Office of Research and Development
P2RX	Pollution Prevention Resource Exchange
P3	People, Prosperity and the Planet
PAR	Performance and Accountability Report
PARS	Performance Appraisal and Recognition System
PART	Program Assessment Rating Tool
Pb	Lead
PBDEs	Polybrominated Diphenyl Ethers
PCBs	Polychlorinated Biphenyls
PCFV	Partnership for Clean Fuels
PCS	Permit Compliance System
PFC	Perfluorocarbon
PFOA	Perfluorooctanoic Acid
PM	Particulate Matter
PM	Performance Measure
PMA	President's Management Agenda
PMN	Pre-Manufacture Notice
PMO	Program Management Office
PPM	Parts Per Million
PPRTV	Provisional Peer Reviewed Toxicity Value
PRP	Potential Responsible Parties
PWSS	Public Water System Supervision
QA/QC	Quality Assurance/Quality Control
R&D	Research and Development
RA	Remedial Action
RCA	Reports Consolidation Act of 2000
RCRA	Resource Conservation and Recovery Act
RCRA CA	Resource Conservation and Recovery Act Corrective Action
READ	Registry of EPA Applications, Models and Datasets
RED	Registration Eligibility Decision
RERT	Radiological Emergency Response Team

RfC	Reference Concentrations
RFS	Renewable Fuels Standard
RSEI	Risk Screening Environmental Indicators
RTP	Research Triangle Park
SAB	Science Advisory Board
SAV	Submerged Aquatic Vegetation
SDWA	Safe Drinking Water Act
SDWIS	Safe Drinking Water Information System
SEMARNAT	Secretariat of Environment & Natural Resources
SEP	Supplemental Environmental Project
SES	Senior Executive Service
SFO	Servicing Finance Office
SIDS	Screening Information Data Sets
SIMS	Shellfish Information Management System
SIP	State Implementation Plans
SITE	Superfund Innovative Technology Evaluation
SLAMS	State and Local Air Monitoring Stations
SO <sub>2</sub>	Sulfur Dioxide
SOC	Significant Operational Compliance
SOL	Statute of Limitations
SPCC	Spill Prevention, Control and Countermeasures
SRF	State Revolving Fund
SSC	Superfund State Contracts
TAG	Technical Assistance Grant
TASWER	Tribal Association of Solid Waste and Emergency Response
TMDL	Total Maximum Daily Load
TOSC	Technical Outreach Services for Communities
TPEA	Tribal Program Enterprise Architecture
TRI	Toxic Release Inventory
TRI-ME	Toxic Release Inventory Made Easy
TSCA	Toxic Substances Control Act
TSE	Technology for a Sustainable Environment
TWG	Targeted Watershed Grants
UIC	Underground Injection Control
UNEP	United Nations Environment Programme
URE	Unit Risk Estimate
USTs	Underground Storage Tanks
UV	Ultraviolet
VCCEP	Voluntary Children's Chemical Evaluation Program
VOC	Volatile Organic Compound
WHAT If	Watershed Health Assessment Tools Investigating Fisheries
WIPP	Waste Isolation Pilot Plant
WPDG	Wetland Program Development Grants

## **WE WELCOME YOUR COMMENTS!**

Thank you for your interest in the U.S. Environmental Protection Agency's *Fiscal Year 2010 Agency Financial Report*. We welcome your comments on how we can make this report a more informative document for our readers. We are particularly interested in your comments on the usefulness of the information and the manner in which it is presented. Please send your comments to:

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Office of Financial Management  
Environmental Protection Agency  
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